

PURPOSE

This chapter continues in the sequence of the chapters that focus specifically on equity issues. Indeed, this chapter looks at one of the most important issues in the United States today, that of healthcare. Students will learn that healthcare is not just an issue of equity, but also of efficiency. The most commonly discussed issues in U.S. healthcare are rising costs, waste and inefficiency, the nature of profits, and limited access to healthcare. The tools we use to analyze these issues are, once again, the production possibilities curve and supply and demand. Alternative healthcare policies are considered. The text places considerable coverage of the Affordable Care Act (ACA), and while the president and Republican Congress spent much of 2017 trying to repeal and replace (or just repeal) the ACA, they were not successful. The ACA remains, though Trump has tried to reduce its significance.

LEARNING OBJECTIVES

The learning objectives for this chapter are:

1. to acquaint the student with the issues of rising costs of healthcare and the reasons for it in the context of the demand and supply model.
 2. to help the student understand the role of waste and inefficiency in our healthcare system and how this might be addressed. We are assisted by revisiting the production possibilities curve.
 3. to help the student recognize that the United States is not number one in the world in terms of healthcare outcomes and that there is considerable disparity in healthcare outcomes among U.S. racial and ethnic groups.
 4. to introduce the student to the principal ways we pay for healthcare.
 5. to help the student understand the roles played by third-party payment, physician sovereignty, defensive medicine, rapid technological change, pharmaceutical drugs, cost shifting, and patient attitudes towards the increased demand for healthcare and its costs.
 6. to introduce the student to our present healthcare programs and some of the commonly proposed policies to improve our healthcare programs.
 7. to help the student realize that, while we don't usually like the idea of rationing healthcare, we do currently ration it in one way or another.
 8. to acquaint the student with the economic liberal and conservative viewpoints toward healthcare policy.
 9. to assist students in understanding the specific expenses associated with private insurance (Appendix 8-1)
-

LECTURE SUGGESTIONS

- Ask your students what they think of the quality of U.S. healthcare, and many of them will probably proclaim that our healthcare system is the best in the world! (Indeed, opponents to healthcare reform often proclaimed that the United States does have the world's best healthcare system.) This chapter presents a good opportunity to compare both the expenditures on healthcare and the outcomes of healthcare with other countries and to discover that U.S. healthcare falls short. One of the problems in U.S. healthcare is, of course, the fact that still some Americans have no health insurance coverage.

- Traditional college freshmen are a relatively healthy population. They tend to be rather complacent about medical care. One of the first things I do in teaching this chapter is to try to overcome this complacency. I do this by initiating a discussion.
 - I begin by asking them if their families have insurance. I ask if they know what the insurance costs per month. Is the family's insurance a group plan acquired through work? Does it cover everything? Does the insurance have deductibles and co-payments? Are the students still covered by their families' insurance? I talk about the ways that people acquire insurance and discuss uninsured citizens. Many of our students assume that uninsured families are automatically eligible for Medicaid. I point out that being uninsured means being not covered by any government health program or any private insurance.
 - I ask if everyone in class is covered by insurance and point out that before the ACA, their age group had a high proportion of uninsured people. Students now must be covered by their parents' healthcare until they reach age 26.
 - I tell the students about the 32-year-old son of my best childhood friend. Lacking health insurance, his diabetes went undiagnosed until his body was filled with gangrene. Even though the hospital admitted him for emergency care, he died for lack of preventative care, leaving behind a wife and two little girls.
 - I ask if any members of their families have been hospitalized recently. Did they receive good medical care? What did it cost? Do they think their families receive good medical care generally? Can you receive too much medical care? Some of our students are familiar with the high costs of medical care, and we can build on this to look at resource allocation. One thing that I have learned over time is that we have to make healthcare personal for our students if they are going to put in the effort of analyzing the system. Now, if we are lucky enough to have some nontraditional students in the class, it makes our job much easier. They tend to be more aware of the issues and willing to talk about some of their experiences. Once we attract our students' attention, they are usually receptive to the material on healthcare.
- I usually encourage students to know "ballpark numbers" for important statistics (such as 9 percent of U.S. residents without healthcare insurance or U.S. healthcare expenses amounting to over \$10,000 per person on average. I also ask them to make comparisons (African American infant mortality rates are above those of whites), and trends (U.S. spending on healthcare has gone up over time).
- You may want to encourage students to rent Michael Moore's DVD *Sicko* (offer extra credit) and discuss it in class. (It is relevant to homelessness by providing an example of a man and his son who experience homelessness. It is less realistic in terms of the ending.)

ADDITIONAL DISCUSSION AND ACTION QUESTIONS

Some of the following discussion questions may be helpful in preparing lectures.

1. Draw supply and demand curves for healthcare. Then discuss how each of the following would affect the market for healthcare:
 - a. physicians' sovereignty.
 - b. third-party payment.
 - c. our tendency to sue for malpractice.
 - d. new technology.
 - e. pharmaceutical drugs
 - f. cost shifting
 - g. patient attitudes
2. Should third-party payment cover *all* our healthcare costs, or should there be a deductible or co-payment? Do co-payments discourage unnecessary treatments, or do they discourage preventative care? Or do they discourage both?
3. Do people without insurance go without medical care in emergencies or if they become seriously ill? Do they get treatment in a timely manner? If hospitals give them treatment as charity, does it affect the prices of hospital treatment for others? If hospitals treat uninsured people in medical emergencies, why are these people still more likely to die? (They've gone without preventative care.)

4. Assign the students to research the Affordable Care Act. How do the mandates in the ACA protect consumers of healthcare?
5. Ask your students to help you design a national health insurance plan. What would be covered? Who would be covered? How would care be paid for?
6. Discuss the incentives involved in fee-for-service vs. managed care insurance plans.
7. Discuss the mandates of the ACA with students. Why are they important?

SOME ANSWERS AND COMMENTS ON THE TEXT DISCUSSION AND ACTION QUESTIONS

1. Student activity. U.S. health expenditures as a share of GDP were highest among industrialized countries in 2016.
2. The life expectancies in the United States are among the worst in the Western industrialized countries.
3. Lifestyle factors (such as smoking, illegal drug use, nutrition, etc.) may also be important factors. Violence (such as civil war or gang violence) may be significant in some countries. Of course, AIDS has become a significant factor in many (especially African) countries.
4. Physician sovereignty is the doctors' control over consumer demand; it will increase demand. Third-party payment is payment by anyone other than the patient or the patient's family. If the government or the insurance company pays for it, patients are less conscious of costs and demand tends to increase. Defensive medicine is the prescribing of unnecessary tests or treatments by doctors solely in order to avoid malpractice suits. This increases demand. If patients feel they deserve the most technologically advanced care available, or if they do not take care of themselves and expect the medical system to cure them of any resulting condition, it increases the demand for healthcare.
5. In the sense that we may value other products that could be produced with the resources used for healthcare, we can over-allocate resources to healthcare. Nevertheless, the fact that some of the examples in #4 increase the demand for healthcare is not necessarily a bad thing.
6. Cost shifting involves spreading uncompensated costs of charity, Medicaid, or Medicare recipients to patients (or their insurance companies) who can pay for them. It increases costs for those with generous health insurance. The costs for which the insurance companies reimburse the hospital are inflated.
7. Medicare is a type of social insurance intended to benefit aged retirees and disabled persons. It does not cover all medical expenses, and many retirees also carry Medigap insurance to protect themselves. There is no means test for Medicare eligibility. Medicaid is a federal and state program to provide medical care for low-income families. There is therefore a means test. Because the states administer and partially fund Medicaid, eligibility and coverage vary widely throughout the United States.
8. Student answers will vary. Have students provided economic reasoning for their conclusions?
9. The incentives are to use the least expensive treatment and to stress preventive care.
10. The most commonly discussed features are universality and comprehensiveness.
11. Student activity.
12. Student activity.
13. Student activity.
14. Student activity.

SUGGESTED TEST QUESTIONS

Multiple-Choice Questions

1. About how much money was spent on healthcare per person on average in the United States in 2016? Approximately:
 - a. \$1,000
 - b. \$10,000**
 - c. \$100,000
 - d. \$1 million
2. Medicaid and Medicare differ in that:
 - a. Medicare is means tested, but Medicaid is not.
 - b. Medicaid is funded by a federal tax on wages, but Medicare is funded by the general tax revenues of state and federal governments.
 - c. to be eligible for Medicaid, families have to have low income, but there is no means test for Medicare.**
 - d. Medicaid is meant only for retirees, but Medicare is meant for people of all ages.
3. What do physicians' sovereignty and third-party payment have in common?
 - a. They both lead to greater efficiency in U.S. healthcare.
 - b. They both increase the supply of healthcare.
 - c. They both increase the demand for healthcare.**
 - d. They both lead to an under-allocation of resources to healthcare.
4. Among the problems associated with U.S. healthcare is that:
 - a. modern technology is often unavailable.
 - b. significant numbers of uninsured people still lack access to the healthcare system.**
 - c. third-party payment leads to under-allocation of resources to healthcare.
 - d. patients have cautious attitudes to using healthcare.
5. What factor below encourages an over-allocation of resources to healthcare?
 - a. physician sovereignty
 - b. third-party payment
 - c. rapidly changing technology
 - d. All of the above**
6. Which country has the highest healthcare expenditures (as a share of GDP) as listed in the text table?
 - a. Austria
 - b. Canada
 - c. Denmark
 - d. the U.S.**
7. The major goal of Medicare is to:
 - a. provide healthcare to older, retired Americans.**
 - b. provide comprehensive healthcare coverage to eligible people.
 - c. provide healthcare to low-income families.
 - d. make basic healthcare available to all Americans.
8. The major goal of Medicaid is to:
 - a. provide healthcare to older, retired Americans.
 - b. provide comprehensive healthcare coverage to eligible people.
 - c. provide healthcare to low-income families.**
 - d. make basic healthcare available to all Americans.

9. Compared with 1960, national health expenditures in the United States have:
- decreased greatly.
 - decreased a little.
 - increased greatly.**
 - increased a little.
10. Defensive medicine:
- increases the supply of healthcare.
 - is the same as preventive medicine.
 - increases the demand for healthcare.**
 - occurs because patients are very defensive about their health.
11. U.S. healthcare expenditures have recently amounted to about _____ percent of national output.
- 2
 - 5
 - 10
 - 15**
12. What percentage of Americans are currently without any form of health insurance?
- 26%
 - 15%**
 - 5%
 - 2%
13. The purpose of the CHIP program is to:
- provide health coverage for the children of low-income families.**
 - provide health insurance for disabled workers.
 - allow workers who lose their jobs to keep their health insurance by paying for it themselves.
 - compensate hospitals for costs not covered by Medicaid or Medicare.
14. An advantage of a single-payer healthcare system over our market system is that:
- healthcare would not have to be rationed.
 - the government would pay for everything, so families would not have to worry about access to healthcare.
 - such a system would be much less expensive to administer.**
 - it would amount to socialized medicine.
15. The two main types of “managed care” organizations are:
- veterans hospitals and university teaching hospitals.
 - not-for-profit hospitals and preferred provider organizations.
 - skilled nursing facilities and health maintenance organizations.
 - health maintenance organizations and preferred provider organizations.**
16. Which of the industrialized countries mentioned in the text has the highest life expectancy?
- the United States
 - Japan**
 - Canada
 - Portugal
17. Which of the following groups in the United States has the highest infant mortality rate?
- White
 - Native American
 - Hispanic
 - African American**

18. Which of the following groups in the United States is the least likely to have health insurance?
- Caucasian
 - Native American**
 - Hispanic
 - African American
19. Which of the following proposals is the *least* likely to be considered by conservatives?
- Replace health insurance with medical savings accounts.
 - Nationalize healthcare.**
 - Privatize all hospitals and healthcare services.
 - Eliminate or curtail Medicare and Medicaid.

True-and-False Questions

- Since 1960, U.S. healthcare expenditures (per capita) have increased dramatically. (T)
- U.S. healthcare expenditures per capita are the highest among the Western industrialized countries. (T)
- If Americans cannot afford private health insurance, they are automatically covered by one of the government health plans. (F)
- Medicaid is subsidized healthcare for Social Security recipients. (F)
- Defensive medicine increases the demand for healthcare. (T)
- Cost shifting occurs when hospitals charge patients with good insurance higher prices to offset uncompensated costs of uninsured patients. (T)
- Canada has a single-payer national healthcare system. (T)
- New technologies often increase the demand for healthcare. (T)
- The U.S. infant mortality rate is the highest for African Americans. (T)
- It is impossible to over-allocate resources to healthcare. (F)
- African Americans are more likely to be insured than whites. (F)
- Japan has the highest (worst) infant mortality rate in the world. (F)
- The United States has the world's lowest (best) infant mortality rate. (F)
- Despite the fact that its expenditures on healthcare as a share of GDP are the highest in the world, the United States has a relatively low life expectancy in comparison with other industrialized countries. (T)
- Privatization of healthcare is the transfer of government enterprises (hospitals, clinics, etc.) or responsibility for healthcare to the private sector. (T)
- Duplication of expensive technology contributes to the high cost of healthcare in the United States. (T)
- In 2016, over 90 percent of the United States population had health insurance coverage. (T)
- Medicaid is a healthcare program specifically for low-income people. (T)
- Medicare is a healthcare program specifically for low-income people. (F)
- Advertising contributes to competition among providers of healthcare. (T)
- A program is "means tested" if eligibility hinges on having a low income. (T)
- Economic liberals tend to support greater government involvement in healthcare reform and national healthcare programs. (T)
- The United States does *not* ration healthcare. (F)

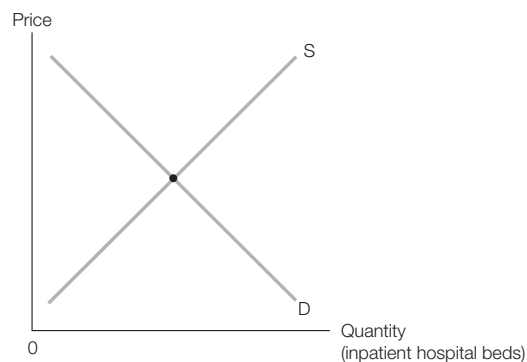
24. A medical savings account is held by the government to be used for unexpected medical expenses. (F)
25. Advertising in the healthcare industry can improve competition among healthcare providers. (T)
26. The ACA is correctly labelled “socialized medicine”. (F)
27. Health maintenance organizations (HMOs) and preferred provider organizations (PPOs) are examples of group practices. (T)

(Appendix 8-1)

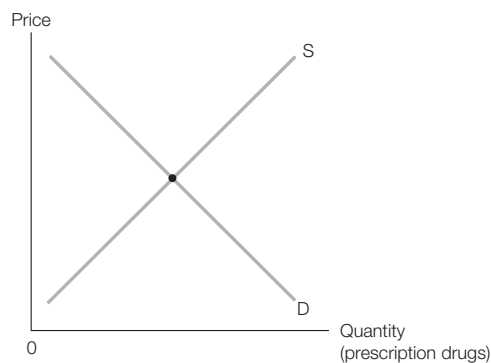
28. There is regressivity in patient payments for private healthcare. (T)

Short-Answer Questions

1. Assume that the following graph shows the supply and demand for hospital beds. Show the shift that would occur if insurance policies changed so that a procedure once done in the hospital is now only covered if done on an outpatient basis. (**The demand curve would shift backwards.**) What would happen to price (**decrease**) and quantity? (**decrease**)



- The following is the demand and supply of prescription drugs taken by elderly persons. Show the shift that would occur if Medicare were to begin covering the full cost of prescription drugs for Social Security recipients. (**The demand curve will shift forward.**) What would happen to price (**increase**) and quantity? (**increase**)



2. Explain how each of the following affects resources allocated to healthcare:
- third-party payment (**increases**)
 - defensive medicine (**increases**)
 - physician sovereignty (**increases**)

3. With reference to data presented in the chapter, answer the following:
- What were total U.S. health expenditures per person on average in 1960? (**\$146**) In 2016? (**\$10,348**) (Note these are not adjusted for inflation.)
 - How does this compare with other industrialized countries? (**the highest**)
 - How does the United States average life expectancy and infant mortality rate compared with those of other industrialized countries? (**Of the top 32 countries, the U.S. has the lowest in life expectancy and a relatively high infant mortality rate.**)
 - How do infant mortality rates vary among different racial and ethnic groups in the United States? (see *Table 8-4*) How do they vary in terms of health insurance coverage? (see *Table 8-6*) Do you think there is a relationship between these? What other factors may be involved? (**lifestyle, drugs, cigarettes, alcohol, nutrition, gun violence, suicides**)

Critical Thinking Questions

- Assume that you are a consultant working in the field of healthcare. You are asked to design a healthcare system that will provide financial access to all Americans, but minimize healthcare expenditures. What features would such a system have? Justify your system's features.
- Should the U.S. have socialized medicine? What about Bernie Sander's proposal for "Medicare for all?"

INTERNET RESOURCES

<http://www.who.int/>

(This is the World Health Organization site.)

<http://www.oecd.org>

(This is the Organization for Economic Cooperation and Development site. It has information on international health expenditures and various health statistics.)

<http://cms.hhs.gov>

(The Center for Medicare and Medicaid Services provides information on these two programs, including CHIP, formerly SCHIP.)

<http://www.worldbank.org>

(This World Bank site provides comparative data on life expectancies, infant mortality rates, and other healthcare outcomes.)

<http://www.pnhp.org>

(This is the website of Physicians for a National Health Program.)

<http://www.cbpp.org>

(This Center for Budget and Policy Priorities site has many studies pertaining to U.S. healthcare.)