Want a Euro-style health care system? Think again

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— The idea of universal health care is appealing. It makes us think of a perfect world where anyone can walk into a hospital or doctor's office, receive treatment and walk out without any cost.

But is this idea very realistic?

Many people point to Canada and Europe as successful examples of successful universal health care systems. But how successful – and how "universal" – are these examples in reality?

Early last year the Cato Institute published a survey ("The Grass Is Not Always Greener," March 18, 2008) of about a dozen western European national health care systems. This study shows (1) there is no single type of national health care. And (2) there is also no perfect health care system. Many systems suffer from expanding deficits, rising costs, stifling bureaucracy, a lack of technology, limited patient choice and long waiting lists for patient care.

Most importantly, the Cato study noted that the European health care systems that work the best are those that incorporate market mechanisms, such as patient co-payments and competition among providers, and allow for the existence of private insurers.

Some advocates of universal health care in America point to France (ranked No. 1 by the World Health Organization) as the country with the model health care system. About 99 percent of French citizens are covered by the country's national health insurance, which is largely paid for by a tax on incomes that amounts to around 19 percent. As a percent of the total economy, the French system accounts for about 11 percent of the country's GDP – the third most expensive in the world after the U.S. and Switzerland.

But, upon closer examination, the French system falls short of the ideal many Americans envision. Most French medical services require co-payments of between 10 and 40 percent. In fact, the French pay about 13 percent of their health care costs out of pocket – about the same percentage as in the U.S. On top of that, more than 90 percent of French residents purchase private health insurance in addition to their national insurance. As a result, more than 12 percent of French health care spending is covered by private insurers. In all, non-government sources of payments for French health care amounts to about 20 percent of total costs.

In addition, the private insurance industry in France, Cato found, is in may ways less regulated than the U.S. insurance industry. There are no mandates on specific coverage, pre-existing conditions can be excluded and insurance premiums are based on experience, not community ratings.

Despite the existence of patient co-payments and private insurance the French system is running into budget troubles. The French national government, as in many other countries with national health care systems, sets an overall budget for health care spending. Despite the relatively high payroll taxes to cover the costs, the system has experienced big deficits in recent years. In fact, Cato found, "the health care system is the largest single factor driving France's overall budget deficit," which totals about 2.5 percent of GDP.

To keep costs down, French doctor reimbursements are low compared to reimbursements in the United States. French doctors earn about $55,000 per year, compared with $146,000 for primary care doctors in the U.S. and $271,000 for specialists. Not surprisingly, doctor strikes have not been uncommon in recent years.

Another way the French are attempting to hold down costs is with lower reimbursements for hospitals. However, as Cato notes, this has led to "a recurring lack of capital investment" in those hospitals. The French also have stopped reimbursing providers for certain medications in order to keep down the cost of prescription drugs. As a result, Cato noted, "some patients may not be getting the medicine they need. For example, one study found that 90 percent of French asthma patients are not receiving drugs that might improve their condition."

In short, the Cato study found that the French system is struggling with rising costs and, as a result of its cost-cutting efforts, is in danger of "joining the group of countries [such as Britain] and Canada, where the existence of rationing of health care and waiting lists raises serious questions of access." For now, however, "the French system avoids widespread rationing because, unlike true single-payer systems, it employs market forces," Cato found.

The Cato study looks at several other national health care systems. Many of them have problems far more serious than the French system and make America's system, for all its imperfections, look pretty appealing. In fact, according to Cato, nearly all European countries are searching for ways to improve their national health care systems, most often by allowing market forces to work. As the Cato study concludes:

"The broad and growing trend in countries with national health care systems is to move away from centralized government control and introduce more market-oriented features … If the trend in the United States over the last several years has been toward a more European style system, the trend in Europe is toward a system that looks more like America's."

America's health care system has its problems. But they are most often the result of existing government interventions. The answer is not to add to those interventions. Rather, the answer lies in greater market freedom.

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