

Why Canadian hospitals outperform U.S. hospitals

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By STEFFIE WOOLHANDLER , DAVID HIMMELSTEIN | Jan. 7, 2015

In many countries, bereaved families get condolence cards and flowers. In the U.S., the survivors are also deluged with hospital bills and insurance paperwork.

That paperwork isn't merely an insult. It costs U.S. society a fortune. Take hospitals, for instance. According to research we recently published in *Health Affairs*, U.S. hospitals spent \$215-billion in 2011 on billing and administration, a striking 1.43 per cent of GDP.

Put another way, about \$1 of every \$4 of U.S. hospital spending goes to bureaucracy rather than patient care.

Other countries manage modern, first-rate hospital systems for far less. While administration devoured \$667 per capita annually in the U.S., we found that Canada spent only \$158, Scotland \$164, England \$225 and the Netherlands \$325.

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Moreover, U.S. hospital paperwork costs have risen sharply since 2000, even after adjusting for inflation. In contrast, administration's share of hospital budgets in Canada has actually fallen since 1999.

A generation ago, it took just one or two managers to run a U.S. hospital. Now, the CEO has been joined by "chief officers" for operations, finance, compliance, information, quality management, and more.

Each chief commands his/her own legions—hundreds of billing and registration clerks, referral managers, upcoding specialists (to translate doctors' diagnoses into the most profitable billing codes), and massive IT departments whose first commandment is "get the bill right."

Why are U.S. hospitals so inefficient? Our multiple-payer insurance system forces every hospital to negotiate rates with dozens of insurance plans, each with its own coverage rules, billing procedures and documentation requirements. And each hospital must collect deductibles, co-payments and co-insurance from tens of thousands of patients.

In contrast, Canada and Scotland—where bureaucratic costs are lowest—have single-payer systems that reject this kind of red tape and the need to bill for every Band-Aid. They pay hospitals simple lump-sum budgets, the way we fund local fire stations. And like fire departments, their hospitals don't need to collect from each victim of misfortune.

But the complexity of hospital billing isn't the only thing driving bureaucracy. Hospitals have been forced to add layers of business expertise in order to survive in our market-driven system.

A hospital that doesn't show an operating profit can't fund essential new investments in new equipment and cutting-edge services, or modern buildings. That means administrators have to devote resources to financial gaming like marketing lucrative services (e.g. sports medicine); billing units to squeeze every penny from insurers and patients; and strategies to recruit profitable (well-insured) patients, and avoid unprofitable (e.g. uninsured) ones.

The dismal record of for-profit hospitals illustrates the problem with running hospitals as businesses. The for-profits have higher death rates and employ fewer clinical personnel like nurses than their non-profit counterparts. But care at for-profits actually costs more, and they spend much more on the bureaucracy, a reflection of the high cost of implementing shrewd financial strategies.

Canadian and Scottish hospital administrators don't have to play financial games to assure their survival. Government grants—rather than operating profits—pay for new buildings and equipment. Even in France and Germany, where hospitals bill multiple payers, bureaucratic costs are modest because government directly funds most hospital investments.

England and the Netherlands provide unfortunate counter-examples. Pro-market reforms initiated during the Thatcher era have driven English hospital administrative costs sharply higher. And only U.S. hospitals have higher administrative costs than those in the Netherlands, where radical market-oriented reforms now pressure hospitals to show a profit.

Economics textbooks hold that subjecting medicine to market forces will stimulate efficiency and root out waste. But reality stubbornly refuses to obey. In health care, market-oriented policies encourage hospitals to shift resources to business strategies that boost the bottom line, but contribute nothing to care.

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