The Benefits and Limits of Healthcare Capitalism

Before launching into the subject that was assigned to me for this morning and trying -- modestly -- to contribute to the rethinking of healthcare capitalism, ((and I'm not entirely sure that it was ever thought through the first time around)), I would like to point out the conference's very ambitious theme: "liberty, healthcare, inequality" with an accent on inequalities. Guy Vallancien will address the important topics of 19th and 20th century political philosophy. I will only touch upon them lightly.

In the first part, after having mentioned that socially engineered inequalities do exist, I will demonstrate that the French political class is concerned and excited - to an extreme - by the equalities of rights and laws, while entirely neglecting real inequalities. While this same political class claims that it will reduce inequalities, it hasn't the first idea of how to do it.

In the second chapter, I will describe three contrasting examples: the pharmaceutical industry, hospitals, and national health insurance to show the conditions by which capitalism can be collectively beneficial or...harmful.

Inequalities

God said, according to the French comedian Coluche, that there will be white men, black men, big men, small men, handsome ones and ugly ones...All equal...And that it won't be easy. And then he added that some will be black, small and ugly and for them it will be extremely difficult.

I There are socially just inequalities

Alexis de Tocqueville had already seen the tensions or contradictions between liberty and equality, but a lot of the contemporary thought on the matter is owed to John Rawls who in his "Theory of Justice" asks himself if there can still be just inequalities when "truth and justice suffer no compromises". I will only say a few words about the foundations of his theory, which while poorly known in France, is a major work of the second half of the twentieth century.

For the principles imagined by Rawls to apply, there has to be a prior condition called "the veil of ignorance," by which he means that, at their birth, men ignore the reality of their situation, otherwise known as their "biological and social futures". If this is the case, then it will be possible to find politically and socially fair rules.

Here are the two principles:

1. “Each individual has the right to a system of basic liberties that are the same for everyone, and compatible with an identical system of freedom for all.”

2. Social and economic inequalities must satisfy two conditions:

1. They must be attached to functions and positions that are open to all, with equal chances.

2. They must lead to the greatest good for the most disadvantaged members of society. [1]

If I mention it here, it’s because, contrary to the superficial thoughts of many of my contemporaries, I believe, along with Rawls, that there are acceptable inequalities, especially if “chances are equal” at the outset. There are so many intolerable inequalities that I will have spent my career trying, without success, to reduce.

II Equality by law - Inequality in fact

The first explanation of why we are collectively unable to reduce certain inequalities is that we don’t care about the “inequalities in fact” because we’re so busy debating about the theoretical legal equalities. This vast field of tangible, unjustified inequalities, persists because of the principles of equality “I too have the right to that” ! Yes, you do, but are you a priority? For example, do we need as many school dentists in the 7th arrondissement of Paris as in the Seine Saint-Denis suburb?

There are many unknown or little-known but shocking examples.

- It doesn’t matter that there are twice as many pharmacies in the South of France, as in the North. Since 1941, there is a law stating that the ratio of pharmacies per 1000 inhabitants is the same everywhere.

- It doesn’t matter that places (in homes) for elderly dependent people vary sixfold in each geographic department; our health map and organizational diagrams say that everyone has the right to the same care everywhere.

- It doesn’t matter that health expenses, if we correct for age and sex, vary by 40% between regions, because the system satisfies the populations “needs”. Needs is a hollow word with no meaning.

- It doesn’t matter that cardiovascular expenses vary from 1 to 9 per department, because doctors always prescribe to the best of their ability and conscience.

- It doesn’t matter that radiologists earn three times what the gps do, because it’s always been that way.

- It doesn’t matter “that your chances of being well-cared for vary infinitely (infinitely meaning the difference between life and death) from one physician to the next, one hospital to the next...By definition, all physicians are equally well-trained and competent.”

When we refer to health inequalities, we often think about the financial aspect, access to care. Recent surveys show that French people are now delaying certain care for financial reasons, but it's mostly eyeglasses and dental work. Other care is only about 5% of these cases. Not only do we have universal coverage, hospital consultations have a controlled fee in Sector 1. So, while the person may not be able to access all the professionals, he would like to see right away, it is not a matter of money. Inequality of revenue in France does not lead to inequality of care. Unfortunately, the Left political parties are obsessed with this question which keeps us from attacking other forms of inequality whose consequences are much more drastic. I refer to the inequality of medical practice.

III So, how do we reduce healthcare inequalities?

The purpose of our conference is evident. The organizers wanted us to discuss the inequalities of health (outcomes) and not just the inequalities of care. This is a tough subject.

Health does not concern only medicine but also beliefs, education, living conditions, food habits, sexual behavior...And when we see the social inequalities in healthcare, we don't know how to reduce them, even when we see that life expectancy is correlated to the education level of the mother. We also saw that many prevention campaigns only reach one category of the population and always the same, the most educated category. So how do we reach the others? Our efforts have failed.

Do we increase the price of cigarettes, when the tobacco tax is hardest on the poor and they are the least likely to link today's behavior with tomorrow's health? These remarks are only an argument in favor of modesty. Let's stop with our "good intentions" and look at reality. Let's evaluate public policies, the majority of which never achieve anything because there is no relation between the limited resources and lofty objectives.

Capitalism

"The nastiest of men for the nastiest of motives will somehow work for the benefit of all"

(John Maynard Keynes)

Since Adam Smith's homo economicus, we believed that the individual, in seeking to achieve his own interest, would contribute to the good of humanity thanks to 'the invisible hand'. But then economic thought evolved, starting with Keynes, and also with the utilitarians like Jeremy Bentham, John Stuart Mill, or later with John Rawls who gave a place to collective interest. We are very lucky to have with us this morning, my friend and colleague, Julian le Grand, whose work has contributed to the idea of "quasi-market" and shown how this could be applied to health.

Economic thought has progressed in two centuries. It's not that Adam Smith was wrong. In certain cases, when you reach the conditions of the perfect market, the invisible hand does function.

For example, in a century, the quality of cars and of tennis rackets has significantly improved and their prices have gone down. - But, in other cases, the sum of individual interests does not lead to the collective good, not even anywhere near it. Let's looks at some facts.

IV Pharmaceutical Industry

Almost all of the world's current pharmaceutical compounds were discovered in free economies, by private enterprise. Up until today's China, communist countries (is China even communist?) did not discover one medicine.

However, these firms are interested in profitable markets and therefore, in rich countries, in the causes of frequent morbidity, rather than the causes of mortality. If a compound brings some remarkable progress, with acceptable risks, then the companies ask to leave the competitive environment and acquire a patent that gives them a monopoly. The market only functions when the companies leave competition, and they want this monopoly to last as long as possible. You don't need to have studied economics to know that, in this case, you need to control prices. And even that does not close the gap between demand by patients and the research orientation of the companies who only want profitable demand.

Since we live in a financial economy, we must wonder whether the pharmaceutical companies who previously earned money in order to produce medicines haven't turned it around. They produce medicines to earn money. Just look at the considerable sums invested in buying back their shares and increasing the profit of their invested capital, instead of using this money to develop new products.

We could underline the low productivity of this industry, their low tolerance of risk and their tendency to depend on start-ups in order to innovate.

V Hospitals

The French example demonstrates that the private, for profit sector is more efficient than the public sector. I know that my statement will shock many people. But having looked at this for 40 years now, I know the arguments for and against. I know that the legal constraints and statutes are not the same. I know that private institutions choose their patients and the public ones do not, that emergencies go to the public et not to all the private institutions...Nonetheless, when you compare what is comparable, the private sector is 30% cheaper, because it is constrained. It is not by virtue, that it is that way; it's just a necessity imposed by regulation. The private sector must balance its accounts, and that is possible, because managers are free to act. The difference between public and private is like the running of bulls that will die versus those that don't, as seen by the bull, of course! An institution that may die if it fails makes all the difference!

VI Health Insurance

Our observation is even truer in insurance than for hospitals. Efficacy goes to public financing of medical care. Look at Canada since they changed the financing of their health system. Canada used to have the American system. Since it changed, the Canadian system is much more efficient and equitable than the US system. With 7 points of GDP, all Canadian residents are covered. Nowhere near the case in the US despite Obama's reform! Canadian financing is public. The US is 56% private. We could also take the German or Dutch example and reach the same conclusions even though the data may not be the same.

Why does competition for financing not work? First of all it is more costly. The private sector must do marketing and manage risk, case by case. Everyone wants to postpone death, by having "the best care" possible. Since there is a huge asymmetry of information between the producers and consumers, consumers often think that good doctors and hospitals are the ones who charge more.

Wealthy people buy more insurance that will allow them to access these types of hospitals and physicians. That has an influence on the fees and increases prices. The American example shows that the difference in cost is a problem of price. Insurers don't try to lower prices. They try to cover risk. A public insurer controles rates in order to fit in an envelope. A private insurer seeks to increase profitability.

Many economists, including myself, thought 25 years ago that competition for finance would lead to more efficiency, that private insurers would control tarifs and prescriptions. Some do but mostly they need to gain market share and be profitable. Rates can increase as long as the client can pay.

Conclusion

To summarize, we have seen that private enterprise in capitalism takes risks, innovates, manages. Having lived in and near State-based capitalism, I'd like to share with you my deep distrust. Without entering into the details, I can tell you that some public agents behave like no private capitalist would just because it's not his money but it is his personal interest over that of the activity.

As to hospitals, we cannot manage such complex institutions by piling rules one on top of the other. Freedom and independence of management is essential. That is why I'm against the French law (HPST) that seriously reinforced state centralization of hospital management. Like the British, we should create trusts that are public but independent. With our right-leaning parliament, we did a "Soviet" reform and we are paying the price and not just in healthcare. On the other hand, capitalism can be inefficient and worthy of condemnation--not just because of Thomas Piketty's work on the concentration of the world's capital in the hands of a few which increases inequalities. The international scene shows us the inefficiency of the market in the financing of healthcare. The benefits of competition are a hypothesis in economic theory and for some a belief.

Europe imposed this on France in electricity and railroads and we haven't yet seen the benefits. Fortunately, universal health insurance escaped this fate.

Let's be wary of simple ideas. Let's look at the consequence of national and international experiences and let's remember Deng Xiaoping, who with respect to Chinese capitalism said. "It doesn't matter if a cat is white or black. As long as it catches the mouse, it's a good cat."

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