Why is American healthcare so expensive?
About the author

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Why is American healthcare so expensive?
As a native of France, I’ve come to love many things about life in the United States. Diverse geography, action movies, and Southern-style barbeque restaurants rank near the top of my list. One item that doesn’t make the cut? The high cost of American healthcare.

For most Europeans, the price of medical services in this country is mystifying. For example, the per capita cost of care in the US is more than double that of France, ($9,024 vs $4,367 respectively), and triple that of Italy ($3,207). Perhaps those carbohydrates aren’t as bad as Americans think.

As an outsider, I’ve approached this problem with the mindset of an anthropologist. I want to understand why a country as wonderful as this one struggles with something so fundamental. To solve the mystery, I’ve examined more hospital budgets, insurance reimbursement codes, and CMS documents than I’d care to admit. While I may not have completely solved the riddle, I’ve managed to identify five key drivers of American healthcare costs:
Cost driver #1: US care is decentralized and provides more freedom to choose

**According to the CDC,** 32 percent of US national health expenditures go to hospitals. In Europe, the breakdown is closer to 40-45 percent. This suggests spending in the US is more decentralized to small clinics and practices compared to Europe. There, governments tend to tightly control where hospitals can be built or where doctors can settle, because regulators know that offering more services creates a higher demand for them. Meanwhile in the US, there is typically easier access to specialists. European countries tend to have primary care physicians (PCP) act as gatekeepers, increasing deductibles if specialists are consulted without PCP referral. Although the same practice exists Stateside, it’s dependent on plan type. In Europe, it applies to everyone.

While this freer access to specialists may be consistent with the American mindset of fierce independence, it can also drive up costs by preventing shared learnings and scalable models. Because Europeans see health as a fundamental human right, governments feel they can control prices and offering. In the US, freedom to choose also means there is less coordination, less pressure to control prices of providers, and more incentives for them to multiply costly interventions, which may not always be necessary for care.

Cost driver #2: Too much cure, not enough prevention

**The New England Journal of Medicine** recently reaffirmed what many of us long suspected: Health insurance makes people healthier. With insurance, people can seek out preventative care through annual exams and regular screenings rather than waiting until they suffer an acute episode and require emergency care. In most of Europe, health coverage is a universal right. However, in the US, despite progress from the Affordable Care Act, coverage remains out of reach for a significant portion of the population.

The negative effects of the lack of preventative care extends beyond pure
healthcare concerns. In their book, The American Healthcare Paradox, Elizabeth Bradley and Lauren Taylor argue that while more money is spent on healthcare in the US than in other industrial nations, spending on social services is lower. This results in more impoverished people waiting until they are very sick to seek out otherwise unaffordable care, which ends up costing significantly more than if they had been able to seek care before their health became dire.

Additionally, most care providers are also disincentivized to address the non-medical issues of chronic patients. After all, hospitals that put diabetes prevention programs in place face the risk of admitting fewer patients, consequently hurting overall revenue.

Cost driver #3: Too many cooks in the kitchen

In the United States, paying for healthcare is handled by several layers of middlemen. Individuals, employers, insurers, hospitals, and the government could theoretically all process partial payment for a single procedure. As a result, administrative costs mirror the volume of actors involved and balloon far above other countries with more streamlined financing structures.

European-style socialized medicine, by definition, shuns market competition. Meanwhile, clinicians in the US actually compete with each other for patients in ways that resemble how other businesses fight for customers. However, instead of competing on price, hospitals compete on reputation of quality.

Indeed, healthcare is not quite a rational market (more on that in the next section). If a patient has cancer, she will want to see the best specialists no matter the cost associated with doing so, especially since the end payor is usually not the patient herself. Sick patients, in many ways, resemble Henri V in Shakespeare's eponymous play who, when faced with the risk of imminent death, proposed, “My kingdom for a horse.”

In an effort to curb costs, CMS often reduces payments to providers. This means that these same providers need to reduce administrative costs and tend to seek mergers, creating a vicious cycle of price increases and the formation of near-
monopolies. And because sick patients can’t travel, hospitals face less competitive pressure in their areas and pay even higher prices, without real oversight.

Cost driver #4: An expensive commitment to excellence

A point of pride for Americans is the country’s history of medical innovation. There is no question that medical research in the United States is among the best in the world. Touring several hospitals here, you see that spirit of innovation and commitment to excellence in the form of brand new machines and cutting-edge techniques. Drug companies in the United States are world leaders and are free to offer new treatments at prices that help finance staggering R&D costs. While the gadgets, tools, and drugs are top notch, they come at a steep price, which further adds to the high costs of healthcare here. Americans are subsidizing the innovation that helps the whole world.

Similarly, US healthcare suffers from the famous Principal-Agent Problem. The end user isn’t paying directly for their care, so they don’t take price into consideration as they would in an otherwise rational market. This leads to patient demands for the best of the best in terms of care, even when that “best” often turns out to be the most expensive option.

I would compare this to wine: naturally, most people tend to think that the more expensive bottles are the better ones. As a Frenchman, wine is my birthright, so I can confidently say that cost and quality do not correlate nearly as much as most people believe. When it comes to healthcare, it’s even more difficult for patients to judge their doctors on the right criteria.
Cost driver #5: Unhealthy habits among the majority of the population

Many of my American friends are fitness fanatics, but the data shows that this is not a country-wide phenomenon. According to OECD, obesity rates affect one out three people in the US, more than double that of continental Europe or Mediterranean countries. This variance costs the US more than just pride—the CDC estimates that obesity and related illnesses cost the nation $147 billion per year in healthcare-related expenses. Additionally, overweight or obese workers with chronic conditions miss an estimated 450 million workdays a year in America, equal to $153 billion in productivity losses, according to a Gallup-Healthways study. Inevitable comorbidities, including diabetes, high blood pressure, and heart problems, contribute to higher overall costs.

It would seem unreasonable to spend more on healthcare than any other nation if the US didn’t also surpass all other countries in outcomes. And yet, that’s exactly the case. According to a 2013 Institute of Medicine report, Shorter Lives, Poorer Health, Americans have lower life expectancy with higher rates of infant mortality, low birth weight, or more chronic diseases than other developed countries. The “spend more, get less paradox” has been documented for decades, but again, feeds a vicious cycle of sicker patients that need more care.
So what can we do about it?
Given the American mindset of individualism and opposition to strong government intervention, I’m not entirely sure that the British or German price control regulations or public payer systems are replicable, or even adaptable, to the United States.

Influencers like Jonathan Bush, the founder of Athena Health, actually argues the exact opposite is needed for this country. He says more market mechanisms are required to allow patients to “shop for health” and put providers in further competition through transparency, which would drive prices down by increasing the range of choices. For him, the government can only intervene to make the market work better, not more cheaply.

While the debate between proponents of more socialized medicine and those supporting free markets may continue for years to come, innovators can’t take political stances. Technology firms must look for solutions that transcend the political divide. Naturally, I’m a believer in the curative powers of digital health. And while it may not cure all of the ailments of US healthcare, it offers simple, if partial, solutions to all of the above mentioned problems.

First, the right digital tools can centralize care, or rather, serve as “gatekeepers” of the system, creating pathways for patients that would otherwise not know where to seek help first. As an example, triage apps reduce the need for otherwise avoidable ER visits by helping patients screen themselves to assess the gravity of their symptoms. Similarly, AI tools, including Alexa, the Amazon voice assistant, are beginning to provide even more specialized care as they feed into a patient’s medical history and incorporate personal data from medical sensors.
More importantly, digital health is creating new incentives for care providers to begin pushing for preventative services in line with the goals of value-based care. This new paradigm would not be possible if hospitals and patients had not started digitizing records in hospitals and at home. Hospitals will begin charging for services beyond their walls sooner than you might expect.

Digital health helps to reduce duplicity, provides excellence at an affordable price, and most importantly, helps patients develop healthier habits. The road ahead is long. The tech industry still has a lot of work to do before it can demonstrate fully that its solutions lower the cost of care and deliver value. Valuable tech must both disrupt healthcare and adopt its language, seeking clinical validations for its disease management programs.

In order to make this digital health dream a reality, the organizations footing the hefty bill of American healthcare must also do a better job embracing new and upcoming technology. That means the government, payers, and self-insured employers should look to adopt programs that help scale preventative, technology-driven solutions.

Until then, I'll be more impressed with American barbeque and less with American healthcare.