**Why an MRI Costs $1,080 in America and $280 in France**

By Ezra Klein, *The Washington Post* 06 March 12

There is a simple reason health care in the United States costs more than it does anywhere else: The prices are higher.

That may sound obvious. But it is, in fact, key to understanding one of the most pressing problems facing our economy. In 2009, Americans spent $7,960 per person on health care. Our neighbors in Canada spent $4,808. The Germans spent $4,218. The French, $3,978. If we had the per-person costs of any of those countries, America's deficits would vanish. Workers would have much more money in their pockets. Our economy would grow more quickly, as our exports would be more competitive.

There are many possible explanations for why Americans pay so much more. It could be that we're sicker. Or that we go to the doctor more frequently. But health researchers have largely discarded these theories. As Gerard Anderson, Uwe Reinhardt, Peter Hussey and Varduhi Petrosyan put it in the title of their influential 2003 study on international health-care costs, "it's the prices, stupid."

As it's difficult to get good data on prices, that paper blamed prices largely by eliminating the other possible culprits. They authors considered, for instance, the idea that Americans were simply using more health-care services, but on close inspection, found that Americans don't see the doctor more often or stay longer in the hospital than residents of other countries. Quite the opposite, actually. We spend less time in the hospital than Germans and see the doctor less often than the Canadians.

"The United States spends more on health care than any of the other OECD countries spend, without providing more services than the other countries do," they concluded. "This suggests that the difference in spending is mostly attributable to higher prices of goods and services."

On Friday, the International Federation of Health Plans - a global insurance trade association that includes more than 100 insurers in 25 countries - released more direct evidence. It surveyed its members on the prices paid for 23 medical services and products in different countries, asking after everything from a routine doctor's visit to a dose of Lipitor to coronary bypass surgery. And in 22 of 23 cases, Americans are paying higher prices than residents of other developed countries. Usually, we're paying quite a bit more. The exception is cataract surgery, which appears to be costlier in Switzerland, though cheaper everywhere else.

Prices don't explain all of the difference between America and other countries. But they do explain a big chunk of it. The question, of course, is why Americans pay such high prices - and why we haven't done anything about it.

"Other countries negotiate very aggressively with the providers and set rates that are much lower than we do," Anderson says. They do this in one of two ways. In countries such as Canada and Britain, prices are set by the government. In others, such as Germany and Japan, they're set by providers and insurers sitting in a room and coming to an agreement, with the government stepping in to set prices if they fail.

In America, Medicare and Medicaid negotiate prices on behalf of their tens of millions of members and, not coincidentally, purchase care at a substantial markdown from the commercial average. But outside that, it's a free-for-all. Providers largely charge what they can get away with, often offering different prices to different insurers, and an even higher price to the uninsured.

Health care is an unusual product in that it is difficult, and sometimes impossible, for the customer to say "no." In certain cases, the customer is passed out, or otherwise incapable of making decisions about her care, and the decisions are made by providers whose mandate is, correctly, to save lives rather than money.

In other cases, there is more time for loved ones to consider costs, but little emotional space to do so - no one wants to think there was something more they could have done to save their parent or child. It is not like buying a television, where you can easily comparison shop and walk out of the store, and even forego the purchase if it's too expensive. And imagine what you would pay for a television if the salesmen at Best Buy knew that you couldn't leave without making a purchase.

"In my view, health is a business in the United States in quite a different way than it is elsewhere," says Tom Sackville, who served in Margaret Thatcher's government and now directs the IFHP. "It's very much something people make money out of. There isn't too much embarrassment about that compared to Europe and elsewhere."

The result is that, unlike in other countries, sellers of health-care services in America have considerable power to set prices, and so they set them quite high. Two of the five most profitable industries in the United States - the pharmaceuticals industry and the medical device industry - sell health care. With margins of almost 20 percent, they beat out even the financial sector for sheer profitability.

The players sitting across the table from them - the health insurers - are not so profitable. In 2009, their profit margins were a mere 2.2 percent. That's a signal that the sellers have the upper hand over the buyers.

This is a good deal for residents of other countries, as our high spending makes medical innovations more profitable. "We end up with the benefits of your investment," Sackville says. "You're subsidizing the rest of the world by doing the front-end research."

But many researchers are skeptical that this is an effective way to fund medical innovation. "We pay twice as much for brand-name drugs as most other industrialized countries," Anderson says. "But the drug companies spend only 12 percent of their revenues on innovation. So yes, some of that money goes to innovation, but only 12 percent of it."

And others point out that you also need to account for the innovations and investments that our spending on health care is squeezing out. "There are opportunity costs," says Reinhardt, an economist at Princeton. "The money we spend on health care is money we don't spend educating our children, or investing in infrastructure, scientific research and defense spending. So if what this means is we ultimately have over-medicalized, poorly educated Americans competing with China, that's not a very good investment."

But as simple an explanation as "the prices are higher" is, it is a devilishly difficult problem to fix. Those prices, for one thing, mean profits for a large number of powerful - and popular - industries. For another, centralized bargaining cuts across the grain of America's skepticism of government solutions. In the Medicare Prescription Drug Benefit, for instance, Congress expressly barred Medicare from negotiating the prices of drugs that it was paying for.

The 2010 health-reform law does little to directly address prices. It includes provisions forcing hospitals to publish their prices, which would bring more transparency to this issue, and it gives lawmakers more tools and more information they could use to address prices at some future date. The hope is that by gathering more data to find out which treatments truly work, the federal government will eventually be able to set prices based on the value of treatments, which would be easier than simply setting lower prices across-the-board. But this is, for the most part, a fight the bill ducked, which is part of the reason that even its most committed defenders don't think we'll be paying anything like what they're paying in other countries anytime soon.

"There is so much inefficiency in our system, that there's a lot of low-hanging fruit we can deal with before we get into regulating people's prices." says Len Nichols, director of the Center for Health Policy Research and Ethics at George Mason University. "Maybe, after we've cut waste for 10 years, we'll be ready to have a discussion over prices."

And some economists warn that though high prices help explain why America spends so much more on health care than other countries, cutting prices is no cure-all if it doesn't also cut the rate of growth. After all, if you drop prices by 20 percent, but health-care spending still grows by seven percent a year, you've wiped out the savings in three years.

Even so, Anderson says, "if I could change one thing in the United States to bring down total health expenditures, it would definitely be the prices."