

Want a Better Health Care System? Check Out Japan

The country's public-private hybrid gets good results at lower cost.

By

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Senator Bernie Sanders's new health care plan, called "Medicare for All," would eliminate private health insurance and have the government pay for 100 percent of all health services. It's not going to happen, but it does point the way toward a system that could work better: A public-private hybrid akin to what Japan has. So far, the Sanders plan has encountered considerable skepticism, in both Congress and the media. Though it garnered the endorsement of a number of Democratic senators, House Minority Leader Nancy Pelosi has withheld her support. Catherine Rampell of the Washington Post writes:

What about the 178 million people who currently have employer-sponsored health insurance and overwhelmingly like it? What about the sticker shock awaiting individuals and employers over the tax increases necessary to pay for such a program? What happens if hospitals go bankrupt because Medicare reimburses at much lower rates than private insurance?...And most important, how do you actually pay for this enormous, multi-trillion-dollar overhaul? (Is Mexico paying?)





















It seems to me that Sanders's radical plan is mainly a political negotiating tactic. There is a widespread belief among Democrats that when President Obama crafted his health reform plan back in 2009, he tried too hard to find a compromise that was acceptable to Republicans, and ended up unilaterally watering down the plan without winning any GOP support for his efforts. Sanders, by opening with an extreme proposal that has no chance of passing while Republicans control Congress, clearly hopes to shift the terms of debate onto ground more favorable to advocates of universal health insurance.

Thus, it falls to us pundits to think about what the eventual compromise plan should look like. This is a devilishly difficult task, because health care is such a complicated, multifaceted issue. But one fruitful approach is to look at other

countries and find a system that seems to work well, and think about how to copy it.

So how about Japan? The country's health care system is one of the cheapest on the planet. It costs less as a percentage of the economy than almost any of its rich-world peers:

Health Care Spending by Country

	Percent of GDP, 2014	Dollars per capita
United States	 %16.4	 \$9,402
France	 13.5	 4,959
Norway	 13.4	 9,522
Germany	 12.9	 5,410
Canada	 12.6	 5,292
Switzerland	 12.3	 9,674
Australia	 12.1	 6,031
United Kingdom	 9.9	 3,935
Japan	 9.5	 3,703
Korea	 7.5	 2,060

Source: World Bank

BloombergView

Japan achieves this low level of spending even though it has one of the oldest populations in the world:

Elderly Population by Country

Source: World Bank

So despite having to take care of far more old people, and having a very high standard of medical treatment, Japan spends very little on health care. And few would dispute that the system gets results -- people live longer in Japan than anywhere else.

A lot of that is due to diet, of course, but it's hard to argue that the country's health system is failing in any way. And though better diet would lower U.S. health costs somewhat, it wouldn't bring costs anywhere near what Japan spends.

So how is Japan doing it? What's the secret of their success?

Japan has a hybrid system. The government pays 70 percent of the cost of all health procedures, unless you're a low-income elderly resident, in which case it pays as much as 90 percent. The remaining 30 percent is covered by private health insurance -- either employer-sponsored or privately purchased. Spending on private health insurance to cover the 30 percent co-pay is partially tax-deductible. Benefits are the same for everyone, and -- unlike many U.S. health plans -- include dental and mental-health care. For catastrophic care, poor people, and people with disabilities or certain chronic conditions, the government pays more.

This is not that different from what Medicare already does. It has deductibles (unlike Japan) and fixed co-pays, for which many patients purchase supplemental "Medigap" insurance. Simply extending this policy to cover all Americans would leave the U.S. with a system not too different from what Japan has. The private insurance industry would continue to exist, and would supplement rather than compete with the government.

A single-payer system with substantial co-pays has several advantages. Most importantly, the government's dominant position would allow it to push down the country's anomalously high prices. In Japan, fees for health services are capped by a government committee, but this isn't necessary -- simply having the Medicare system use its bargaining power to negotiate cheaper services could solve a lot of the country's cost problem. The government can also use its bargaining power

judiciously, allowing high prices for innovative treatments in order to encourage their development.

The high co-pays of a Japan-style system provide the government with a fiscal escape route. If high taxes prove to be too much of a burden on the economy, the co-pays could be increased, preserving the government's negotiating power while reducing the amount of taxation required. Also, high co-pays would ensure a role for private insurance, preserving the knowledge and expertise of some fraction of the millions who currently work in that industry.

So instead of a fully government-paid system like Sanders is suggesting, the U.S. should consider a Japan-style hybrid. With government to do the bargaining and provide the safety net, and private insurance to do the rest, the U.S. would be able to preserve the best parts of its current system while addressing the areas where that system falls short.