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## **Unhealthy economy**

### **The OECD has highlighted weaknesses in US healthcare**

In its current mood, the US policy establishment is probably not much minded to respond warmly to advice from multilateral international institutions. But wise heads in Washington would be well advised to take a look at the latest report from the Organisation for Economic Co-operation and Development on the US economy.

The immediate policy prescriptions from economists at the Paris-based club of industrialized nations hardly fall into the category of startlingly original thinking. The economic outlook is uncertain, they say. Monetary policy is accommodative, but further interest rate cuts would be a useful insurance against downside risks, and of course, longer term, rates will need to return to more natural levels once recovery is firmly established.

The fiscal outlook has deteriorated, we learn, in the last few years. A return to surpluses any time soon is unlikely, apparently, though at current debt-to-gross domestic product ratios, this should not be special cause for alarm. In the longer term, it seems, reforms to pension and healthcare programmes will be necessary to achieve a "sustainable long-run budget situation".

All pretty ho-hum stuff. But it is in its assessment of the microeconomic policy challenges, especially in healthcare, that the OECD has the most pertinent things to say.

The weakness of America's healthcare system are a profound long-term structural economic defect that politicians and healthcare providers have signally failed to address in the last few years. In omitting to take action, they squandered the opportunities presented by rapid economic growth.

The report notes that, after a once-only benefit to the economy from declining costs associated with the shift to managed care in the 1990s, American medical costs are rising sharply again. Despite, or perhaps because of, the escalating spending, US healthcare provision remains inefficient and incomplete. High spending per capita does not translate into better care by most measurable international standards. And with 40m or so Americans still not covered by insurance, the social costs - and the concomitant drag on US economic performance - are substantial.

Better targeted tax breaks for private health coverage that would reduce over-consumption would be one way to address the problems of inefficiency and costliness, as would tort reform to limit the costs of medical malpractice lawsuits. But meeting the challenge of extending insurance to the uninsured will have to involve some additional public spending as well as some new tax-based incentives for private provision - all of which will place additional burdens on federal, state and local budgets.

Despite the salience of healthcare issues among the general public, US politicians show little inclination to get to grips with the issue. The OECD has rightly pointed out that it cannot be ignored for much longer.