Chapter Fourteen

International Competitivene

MYTH NO. 14: A SINGLE-PAYER NATIONAL HEALTH CARE SYSTEM WOULD IMPROVE U.S. COMPETITIVENESS IN INTERNATIONAL MARKETS AND BENEFIT AMERICAN WORKERS

Nearly two-thirds of Americans receive health care coverage through their employer. Some critics argue that the high health care costs borne by employers make U.S. products less competitive in the international marketplace and therefore harm American workers.[1] They assert that the cost of employer-provided health insurance adds to the price of American products, whereas a single-payer system would make American manufacturers more competitive by relieving employers of those costs. However, these assertions are wrong.

There is no evidence that the cost of private health insurance adds anything to the price of goods and services sold in the marketplace.[2] Health insurance is simply one element in a workers' total compensation package. It is a nontaxable fringe benefit provided to workers in lieu of money wages. Benefits for most American workers have grown from less than 19 percent of payroll in 1951 to nearly 39 percent today.[3] This reflects the fact that workers, faced with taxes on wage income, have increasingly preferred to receive a larger portion of their compensation in the form of nontaxed benefits.[4] However, workers' total compensation depends on what they produce, not what they consume.

The fact that Americans spend a greater proportion of their income on health care and a smaller proportion on other goods and services does not put us at a competitive disadvantage relative to other countries.[5] The same principle applies to other countries. For example, the Japanese spend a greater

proportion of their income on food, but that doesn't mean that food consumption adds to the price of a Japanese car. Canadians spend a greater proportion of their income on education, but that doesn't mean that education adds to the price of Canadian lumber. These international differences merely reflect consumer preferences and consumer product prices.

A single-payer health insurance system, however, would reduce our international competitiveness. Consider the impact such systems have already had on the competitiveness of European countries. Taxes are a higher percentage of national income in all of these countries than in the United States, and health expenditures are a higher proportion of government budgets. High tax burdens are associated with lower rates of economic growth, job creation and income. Thus, national health insurance has contributed to high unemployment and increasing labor costs in Europe.

Health insurance benefits voluntarily provided by employers do not raise their labor costs. But when employers are required to pay the government for each worker they employ at a rate that bears no relation to the cost of health care consumed by those employees or the value of their work, it raises an employer's labor costs. For example, Germany's sickness insurance funds are financed by compulsory contributions of 13.5 percent of payroll, shared equally by employers and employees.[6] In France, health care is financed by a payroll tax of 12.8 percent on employers and 0.75 percent on employees; additionally, employees pay 7.5 percent of all income (including interest, dividends and other earnings) as a general social contribution, most of which goes to health insurance. Many also contribute an additional 2.5 percent to insurers for a total cost of more than 20 percent of payroll for heath care.[7]

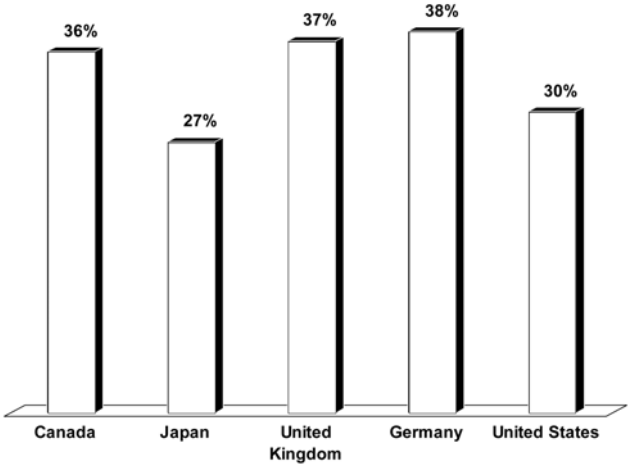
Not only would a single-payer health insurance system require additional taxes on American industries, it would also redistribute income among producers in different industries. On the whole, a single-payer health insurance system would impose extra taxes on U.S. exporting industries and use the proceeds of those taxes to subsidize other industries. The industries that would receive subsidies contribute mostly to domestic rather than international markets. The industries that would be penalized are the manufacturers that provide most of our exports.[8]

Almost a quarter of the federal budget goes to defense spending, whereas our trading partners spend far less. Yet, taxes are lower in the United States than in most other developed countries. As figure 14.1 shows, only Japan currently has a tax burden as low as ours.[9] Moreover, the United States regularly ranks as the most economically competitive nation in the world.[10] Evidently, the lack of single-payer health care has not harmed its ability to compete.

FIGURE 14-1

Tax Burden in the United States and Major Trading Partners[1]

(Tax revenue as a percent of GDP)



[1] As of 2000.

Source: Organization for Economic Cooperation and Development, *Revenue Statistics of OECD Member Countries, 2001 Edition,* July 2002.

NOTES

1. This argument is often based on the fact that most workers obtain their health insurance through their employer and Americans spend more on their health care system than other countries. For example, see Noam Chomsky, *Secrets, Lies and Democracy* (Tucson: Odonian Press, 1994).

2. Goodman and Musgrave, "Twenty Myths about National Health Insurance."

3. U.S. Chamber of Commerce, "Employee Benefits Historical Data 1951–1979" and Bureau of Labor Statistics, "Employer Costs for Employee Compensation—June 2003" News Release USDL: 03-446, Bureau of Labor Statistics, U.S. Department of Labor, August 26, 2003.

4. W. Michael Cox and Richard Alm, "The Economy's Good News: The Upside of Downsizing," National Center for Policy Analysis, *NCPA Policy Backgrounder,* no. 145, February 25, 1998.

5. For a discussion of health care spending and competitiveness, see Uwe Reinhardt, "Health Care Spending and American Competitiveness," *Health Affairs* 8, no.4 (Winter 1989): 5–21.

6. Volker Ulrich, "Health Care in Germany: Structure, Expenditure and Prospects," Fraser Institute, October 10, 1999.

7. David G. Green in Robert E. Moffit et al., "Perspectives on the European Health Care Systems: Some Lessons for America," Heritage Foundation, Lecture No. 711, July 9, 2001. In Germany's two-tiered system, about 90 percent of the population pays the tax for insurance through sickness funds. But those whose income is above a certain level are allowed to opt out of the sickness funds and, instead of paying the tax, use the money to buy private insurance; about 10 percent have done so.

8. See the discussion in Goodman and Musgrave, "Twenty Myths about National Health Insurance."

9. *Revenue Statistics of OECD Member Countries, 2002 Edition* (Paris: OECD, 2002).

10. See "WCY Overall Scoreboard" and "Past Rankings," based on the *World Competitiveness Yearbook 2003* (Lausanne, Switzerland: IMD, 2003), available at http://www02.imd.ch/wcy/ranking.