US big businesses struggle to cope with health-care costs

General Motors president Rick Wagoner caused controversy when he blamed the US health-care system for his company's near-bankrupt status. But, as Paul Webster explains, health care and the US and Canadian automotive industry's economic decisions are increasingly interlinked.

50 years ago, Charlie Wilson, president of the US automaker General Motors, told a panel of US Senators that he had always thought "what was good for the country was good for General Motors, and vice versa". Wilson, who was asked by President Eisenhower to serve as Defense Secretary in 1953, is little remembered. But his words—redacted by newsmen as "what's good for General Motors is good for America"—have become a kind of unofficial constitutional amendment. GM employs 325 000 worldwide and has been the world's largest carmaker for 70 years. Not surprisingly, GM Presidents have long been accorded semi-oracular status. So, when GM's current president, Rick Wagoner, blamed the company's near-bankrupt status on the US health-care system, people took note.

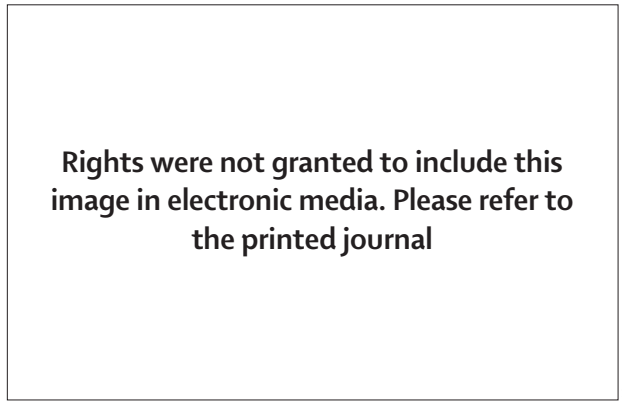
Speaking at an industry conference in Detroit during the run-up to last year's presidential election, Wagoner complained that the USA spends 15% of its total economic output on health care—far more than in any other wealthy nation, and 50% more than in Canada, America's closest economic competitor. GM, which is the largest private provider of health care in the USA, will spend US$5·6 billion this year to provide health insurance coverage for about 750 000 workers and retirees, as well as their spouses and family members. Ford Motors spent $3·2 billion on health care in 2003 for 560 000 US employees, retirees, and their dependants.

In labour negotiations last year, executives at GM and Ford targeted their massive health-care liabilities (estimated at $20 000 per employee) by forcing union negotiators to reduce employees' and pensioners' access to ever-more costly US health services. "The worst part of all this is that these very high costs don't necessarily buy the best health care", Wagoner complained before noting the USA ranks 12th out of 13 industrialised nations in the 16 top indicators of health. "If our cars performed at the same quality levels as our medical system, nobody would buy our cars."

Unfortunately for Wagoner, fewer Americans are in fact buying GM cars and trucks. The company which once controlled 46% of the US market in 1979 now has a 25% share. And thanks in significant part to US health-care costs, fewer and fewer of the 9·08 million vehicles GM annually produces worldwide are made in the USA. A 1965 agreement guaranteeing free trade in automobiles and car parts across the Canada–USA border has strongly encouraged American car makers to shift production to Canada, where the publicly-financed health care system allows automakers to shave a whopping $1380 off each car's manufacturing cost. "There's no doubt our public health-care system has been vital in attracting a lot more new investment into Canadian automobile production than in the US", says Jim Stanford, chief economist for the 238 000-strong Canadian Autoworkers Union.

As he orders lunch at a drive-through restaurant from behind the wheel of a GM sport utility vehicle manufactured in Cambridge, Ontario, Stanford says executives with Ford, GM, Toyota, Daimler Chrysler, and International Trucks all cited Canada's public-health system while announcing $5·5-billion in new plant construction this year. The calculation behind their logic is simple enough: in the USA, automakers pay about $1500 in insurance premiums to private health insurance companies for every vehicle they build. Canadian health-care costs—largely in the form of corporate taxes—amount to about US$120 a unit, according to Stanford, who notes that Canada now produces almost 1·5 million vehicles for export to the USA annually, about the same number as is produced for Canada's domestic market. Although many might argue the automobile industry produces products harmful to public health, health care has undeniably been good to the Canadian automobile industry.

With billions in new investment flowing north of the border in search of taxpayer-financed health care, big businesses beyond the auto sector increasingly view Canada's taxpayer-funded system as a major competitive advantage. Richard Nesbitt, the president of the Toronto Stock Exchange, which ranks as the world's seventh largest capital pool, took that message to Wall Street last April. In a speech to the Harvard Club, a venerable Manhattan investment forum, Nesbitt strongly urged US investors to pump their money into an economy where health care serves, rather than shackles, manufacturers. The logic behind that message is easy, says Nesbitt's speech-



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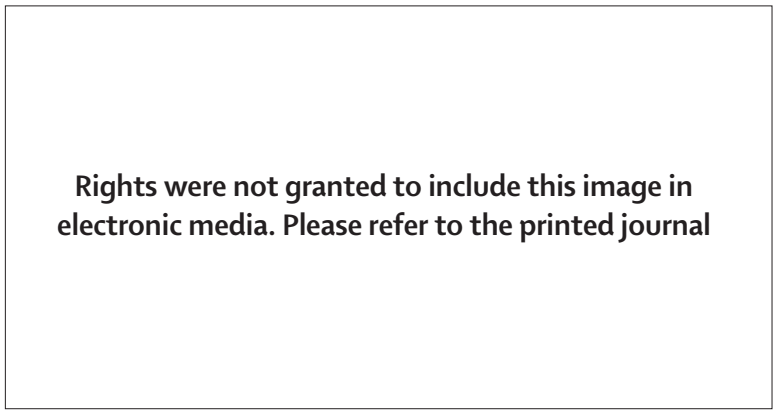
GM president Rick Wagoner blames the US health-care system for GM's woes



AP

Car makers are moving their business to Canada to save on health-care costs

writer David Ablett: "Americans are headed to spend almost $2 trillion, or 16% of their gross domestic product, on health care this year", he says. "These costs are a huge burden on companies, on the federal and state governments, on retirees, on the whole economy. It's just not clear what the advantages are in maintaining a system where about 20% of costs represent profits for private managers."

Ablett's passion for public health is somewhat surprising. The company he works for, Toronto Stock Exchange Group, is the private corporation that manages Toronto's stock market. It makes sizeable profits from the fees paid by businesses listed on the exchange, and the commissions paid on every stock transaction. There's been a steady increase in the number of private medical companies listing on the Toronto exchange in recent years, and stock exchange officials might be expected to see private health care as a lucrative new area for expansion. But Ablett says stock exchange officials strongly support public health care. The over-arching reason for this, he says, is simple: "It's in the Exchange's best interest to have it clearly understood that there are advantages to investing in Canada—and public health is one of the strongest economic advantages we have over the US."

The policy appears to be well-grounded. Shares in the Toronto Stock Exchange Group have risen rapidly this year. The exchange as a whole has also delivered stellar performance, in keeping with Canada's overall economic performance despite corporate and personal income taxes slightly higher than in the USA. The Canadian government has delivered eight annual budget surpluses in a row.

Although auto executives like GM's Rick Wagoner and Ford Motor Vice Chairman Alan Gilmour denounce the heavy costs US health insurers impose on employers, there is little consensus on how to reform the system among US business leaders. Larry Denton, head of the largest US auto parts makers' association and chief executive of parts maker Dura Automotive, which employs 17 000, has called for a government-run "socialised" system similar to those in Canada and most other industrialised nations. Americans have heard this before. More than a decade ago, Lee Iacocca, a former Chrysler Motors president, strongly supported President Bill Clinton's aborted effort to move the USA toward Canadian-style health care, an effort successfully opposed at the time by the health insurance and pharmaceutical industries.

Gerald Anderson, a health-care finance specialist at John Hopkins University in Baltimore, says the crisis in US health-care costs stems directly from high prices for pharmaceuticals, physician care and hospital care. "The solution is clear: we have to reduce prices to international standards. But the political will to force that to happen doesn't exist", says Anderson, who notes that US business leaders and politicians have attempted in recent years mostly to reduce access to health care and service consumption rather than prices. "Our system doesn't deliver a whole lot", Anderson quips. "But we charge an awful lot for it."

Bob Evans, a health care economist at the University of British Columbia in Vancouver, agrees that rising US health-care costs are already far out of line with those of most other industrialised nations. It's an economic wound that is only going to deepen as baby-boomers begin retiring and more and more Americans require long-term care at an average annual cost of $70 000 to private patients, Evans thinks.

"GM isn't the only company permanently saddled with the cost of insuring these people", Evans argues while noting that US health insurers have begun strategically pushing the most expensive types of patients toward publicly funded Medicare and Medicaid programmes, which now account for almost half of US health-care budgets. Evans points to evidence that some US employers, including Wal-Mart, the world's largest private employer with 1·4 million employees, may have begun systematically rejecting unhealthy employees and job applicants in order to trim their health-insurance costs.

"The US health-care system represents a competitive disadvantage for all sorts of US companies", Evans says, before warning that Canadian-style reforms are unlikely to gain popularity among US executives and the Bush administration, which has introduced numerous reforms aimed at entrenching private insurers, despite data indicating "administrative waste" among private insurers consumes 17% of US health-care spending. "On the one hand US executives can see that public health care represents a competitive advantage for foreign companies", Evans says. "On the other hand, they fear higher taxes."

Paul Webster