Debunking Myths: Physicians' Incomes Are Too High and They Are the Cause of Rising Health Care Costs

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It seems that whenever there is a discussion of health care costs in America, at least one critic pops up – usually more than one – who carps about physician fees, income, earnings, etc., and how they greatly impact rising health care costs. They don’t and it is a false narrative to claim that they do, but critics continue to throw the charges out there in the expectation that some will stick. We hope that this blog will shed some light on the subject and that it will help put an end to the misinformation.

Economist Dean Baker, co-founder of the Center for Economic and Policy Research, is merely the latest critic to slam physicians for their role in rising health care costs. In a recent article in Politico, he is quoted as claiming that “Physicians are being paid twice as much on average as physicians in other wealthy countries,” and goes on further to say that “getting U.S. health care costs down is a Herculean task; getting doctors’ pay in line is a big part of the solution. It’s time,” he opines, “to break up the doctor cartel.” ‘Doctors’ cartel?’ Is he joking? If his comments weren’t so absurd, they might be amusing. Let’s look at the facts.
Several years ago, Princeton Professor Uwe Reinhardt (who sadly passed away several weeks ago) wrote an article for the New York Times on the subject of rising health care costs in America. He was surprised when several readers criticized him for not even mentioning physician incomes as one of the salient factors. Reinhardt, also an economist who earned his health care bona fides long ago, responded to the critics with an extensive letter to the editor. His perspective is quite compelling. He began by suggesting that instead of comparing “the incomes of American physicians with those earned by doctors in other countries, a more relevant benchmark, however, would seem to be the earnings of the American talent pool from which American doctors must be recruited.” As he points out, “any college student bright enough to get into medical school surely will be able to land a high-paying job on Wall Street. The obverse is not necessarily true. Against that benchmark,” Professor Reinhardt went on to say, “every American doctor can be said to be sorely underpaid. Furthermore,” he continues, “cutting doctors’ take-home pay would not really solve the health care cost crisis.” What a ludicrous idea!

The total amount Americans pay their physicians, as Reinhardt reminds us, represents only about 20 percent of total national health spending. Of this total, close to half (editor’s note: higher now), is absorbed by physician practice expenses, including “malpractice premiums, but excluding the amortization of college and medical school debt. These debt figures become all that more important when one considers that in many countries – but not in the U.S. – medical education is free. And consider,” he adds, “that doctors in the U.S. train longer as well with four years of college, four years of medical school, three to seven years spent in residencies and even followed by an additional three years in fellowships.” Even if all physicians took a pay cut of 20 percent, the savings would amount to a minuscule two percent of our health bill. Mr. Baker and other critics are clearly barking up the wrong tree. Reinhardt finished his letter by saying that “such a policy (20 percent cut) would leave an understandably wholly demoralized medical profession to which we so often look to save our lives.”

There are also several other relevant issues to consider as well. Add in the challenge of practicing medicine in the most litigious country on the planet, as physician writer Carolyn McClanahan has noted previously in Forbes, and the resulting psychological angst and demands for perfection need also to be weighed when considering physician compensation.

Best-selling author Malcolm Gladwell’s recent comments in Forbes bear repeating. When interviewed by Robert Pearl, MD, Gladwell said the following: “I don’t understand, given the constraints physicians have in doing their jobs and the paperwork demanded of them, why people want to be physicians. I think we have made it very, very difficult for them to perform their job. I think that’s a shame. My
principal concern is the amount of time and attention spent worrying about the business side. You don’t train someone for all those years of medical school and residency, particularly people who want to help others optimize their physical and psychological health, and then have them run a claims processing operation for insurance companies.”

But what about Dean Baker’s claim that U.S. physicians were being paid twice as much on average as their counterparts in other wealthy countries? As mentioned in health writer Peter Laakman’s interesting recent article in National Review, “a tremendous amount of misinformation permeates the debate over U.S. health care. U.S. physician pay is not particularly high when compared with that of those in other countries, nor is it particularly influential as a driver of national health care expenditures.”