



Why Health Care Reform is Failing - Again



By David J. Gibson, MD

DESPITE ALL THE CARBON DIOXIDE generated by the tyronic bloviators under the Capitol dome, health care reform is failing once again. At its inception, this round of high-minded reform had many political fathers. There was the Arnold Schwarzenegger Plan, which had no sponsor in the Legislature. Then Speaker Fabian Núñez's plan appeared at trumpeted news conferences. Not to be outdone, Senate President pro Tem Don Perata trotted out his own plan.

Each used apocalyptic arguments and attempted to foment an atmosphere of hysteria to support their proposals. A couple of proposals are still technically alive, but appear to be in a persistent vegetative state. Reform had many fathers, but just as in the past, it will be buried an orphan.

Perhaps this time we can learn some important lessons. There are nine major contributors to the failure of reform.

The focus was on reforming financing rather than the flawed health care system.

Changing the financing system is not reforming health care. America's health care system is a World War II era construct. Then, surgery in hospitals represented the leading edge of medical technology. Our health care system still performs relatively well when addressing acute episodes of care. But it is ill equipped to address chronic conditions, which now dominate as the baby boomers age.

The result is unsustainable costs related to preventable complications. Redesigning the underwriting system without first redesigning the delivery system is a waste of time and resources. Treating chronic disease on an acuity basis has generated increasing per capita health care spending over the past half century at a rate two to three times faster than per capita gross domestic product (GDP). At its current growth rate, health care spending will consume almost 80 percent of GDP by 2075. As a result, Medicare now has an unfunded liability six times the size of Social Security.¹

Furthermore, we are trying to develop financing for yesterday's health care system.

All of the financing reforms sought to preferentially fund yesterday's acuity/invasive/custodial delivery paradigm. These proposals did not account for the transition now taking place. In the dawning genomic era, diagnostic and therapeutic technology will focus on the cellular level. This technology will prioritize the proactive prevention of disease rather than invasively treating the predictable consequences of the disease process in a custodial environment.

Increased public investing in health care will not reduce the level of the uninsured.

In America, health care spending conforms to the laws of gas in thermodynamics. The system will infinitely expand to accommodate increased funding.

Unfortunately, no measurable outcome improvement has ever been demonstrated. For example, state and local government spending on health care delivery increased from \$115.9 billion in 1995 to \$170.2 billion in 2005.² That was a 46.9 percent jump, compared to inflation registering 22.4 percent (as measured by the GDP price deflator) over the same period. Total federal health-related spending - including health services, research, Medicare and veteran's health care - during this same period increased from \$291.7 billion in 1995 to \$577.9 billion in 2005, a 98 percent increase.

Did the number of uninsured decline with this increase in public spending? No, the raw numbers of uninsured increased - from 40.6 million in 1995 to 46.5 million in 2005. As a share of the population, 15.4 percent were uninsured in 1995 versus 15.9 percent in 2005.

Government at all levels is bankrupt.

At the federal level, a recently released report³ demonstrates that our government has already promised \$63.675 trillion more in benefits than it will collect in taxes. That figure exceeds the gross value of all assets within the United States by \$20 trillion dollars. Just paying for these already promised benefits would require an immediate 14.4 percent tax on all payrolls. America's voluntary based tax system will not survive such an increase. The economy would be driven underground.

The bad news does not stop there. At the state level, we really do not know the extent of current entitlement liabilities. However, conservative estimates indicate the national total could be \$1 trillion. Here in California, State Controller John Chiang has estimated the cost of promised health care benefits to state employees over the next three decades. The tab is \$47.9 billion.

Chiang's estimate is unrealistically optimistic.⁴ Using more accepted standards, the Legislative Analyst's Office last year estimated the liability at \$70 billion. This covers only state employees. Cities, school districts and community colleges face an additional estimated \$90 billion in unfunded health care obligations.

Liabilities of these magnitudes at all levels of government make a new, publicly funded, health care entitlement an unattainable option.

At all levels, there is no ability to raise taxes to pay for an expansive new entitlement.

At the federal level, the policy priority is to address the Alternative Minimum Tax (AMT) issue, not create an expansive new entitlement. Without legislation this year, the number of Americans who pay the AMT will rise as much as six-fold to 23 million. Families with just \$60,000 in combined income will begin paying the AMT in California. The Democrats who run Congress know they risk a tax revolt in 2008 without some kind of AMT patch.

The Democrats' goal is to exempt families with earnings under \$250,000 a year from AMT. Democrats on the House Ways and Means Committee released a draft of their tax plan that would raise the highest income tax rate by 4.3 percentage points to 39.3 percent immediately. Without an extension of existing tax structure, the highest income tax rate would rise to the neighborhood of 44 percent after 2010. Moreover, for families with incomes from \$250,000 - \$500,000, the "marginal" tax rate on the next dollar of earned income will increase to 80 percent, or in some cases even above 100 percent.

All of the above will be required to keep the federal tax revenue neutral. It does not pay for any additional new programs with additional revenue. Every health reform proposal at both the state and the federal level incorporate a progressive tax to pay for providing health insurance for the poor. Of course, the same argument is made for reforming education, maintaining infrastructure and paying for existing entitlements.

At the state level, Prop 13 requires a two-thirds vote in the Legislature before new taxes can be levied. That restriction has prevented enactment of new taxes in the past and will

likely prevent new taxes to pay for an expansive entitlement in the future.

Outside of new taxes, no one is willing to pay for reform.

Californians who have health insurance - and who vote - currently pay the lion's share of taxes. They have not bought the argument that they should pay more taxes for coverage of the uninsured. The increasing dissociation between tax payments and benefits received exacerbates the difficulty in selling more taxes.

A recently published study⁵ found that America's lowest-earning one-fifth of households received roughly \$8.21 in government spending for each dollar of taxes paid in 2004. Households with middle incomes received \$1.30 per tax dollar, and America's highest-earning households received \$0.41. Government spending targeted at the lowest-earning 60 percent of U.S. households is larger than what they paid in federal, state and local taxes. In 2004, between \$1.03 trillion and \$1.53 trillion was redistributed downward from the two highest income quintiles to the three lowest income quintiles.

Making the case that an ever-decreasing number of taxpayers should pay for their non-taxed brethren is even more difficult in a steeply progressive tax system state like California

The Schwarzenegger proposal incorporates a dubious end run on Prop 13. Five percent "fees" would have been charged to doctors and hospitals. For the health care system, this was a non-starter at its inception.

The health care system does not want reform.

The health care industry wants more money pumped into the existing financing system by third parties. What stakeholders in the industry do not want is fundamental reform and redesign of the system itself. Without new outside funding, the industry opts for the status quo.

The health care industry in California generally gets what it wants. At over \$200 billion in revenue per year, the health care sector is the largest industry in the state's economy. Health care is now the leading employer in most communities across California.

The industry freely spends on lobbying the government. According to a report released in June of 2006 by California Secretary of State Bruce McPherson's office, the health care industry spent \$24,431,294 in lobbying the state government in 2005. This is the highest spending figure for any single industry in California's economy outside of government itself.

Reform of the health care system will not occur through the state's public policy arena. The health care industry bought and holds the deed for California's politicians a long time ago.

The philosophical gulf between a pro business governor and a redistributionist Legislature is too broad to bridge.

Both the Fabian Núñez (Assembly Bill 8) and the Perata (Senate Bill 48) plans were passed by the Legislature. The Senate even passed Senator Shiela Kuehl's single payer bill. The first two called exclusively for employer funding, the third called for steep tax increases. All are philosophically unacceptable to the pro-business governor and, therefore, had no chance of enactment.

Californians do not trust their government to manage the health care system.

At the national level, the inattention to competent management is a long and growing list. These include border security, hurricane Katrina, Iraq, medical care for returning service

members - the list stretches on. On the state level, California has been unable to maintain its infrastructure, manage the prison system (which boasts the highest per inmate cost in the nation), educate our children and balance its budget.

Taxpayers long ago concluded their government does not govern. It has become a massive social redistribution organization that is inadequately managed, outrageously expensive and never held accountable for objective outcomes.

Consequently, proposals like Senator Kuehl's single payer bill, which *could* actually restructure the health care system, are not taken seriously. Turning over a vital service such as health care to government strikes most voters as a naïve or, worse, a utopian idea. Government at all levels is not only insolvent - it is incompetent.

Any one of the nine obstacles would doom health care reform. Their cumulative effect means reform had no chance of succeeding. So why have California's politicians raised expectations once again with no real chance for success? I believe the answer lies in a broader issue of paradigm change in the public policy arena.

For most of America's history, politicians have trod a well-defined path to electoral success. They enter politics at the local level by ingratiating themselves to special interests that, in turn, fund their campaigns. Once in office, these newly-elected officials make every effort to become careerists. They remain in office and advance to higher office by returning taxpayer money to their constituents and the special interests that have funded their previous campaigns.

This makes democracy an inherently unstable form of government. The system begins to fail once voters discover they can vote themselves largesse from the public treasury and require payment from "others" or from future generations through debt financing. From that moment on, the majority of voters will generally select candidates promising them entitlements for which they do not have to pay.

All of our current political class came into office within this "activist" government paradigm. An old political saw is, "Don't tax me. Don't tax thee. Tax that feller behind the tree."

If the republic is to survive, politics in the future will be about taking away entitlements, not increasing them. Thus, the only current option is to talk about delivering new programs without actually succeeding in doing so. About the only option politicians will be able to deliver to their constituents will be unfunded mandates imposed on the private sector.

Thus, this entire episode has been about bloviating. Reforming health care is beyond the ability of the public policy makers. This discussion gave politicians the appearance of responding to a need. It was never envisioned that a reform effort would succeed.

Health care reform is needed and will come. It will either follow a collapse of the current financing system or come through proactive leadership from within the health care industry. The smart money is on the former.

djgibson@winfirst.com

1. Source: Andrew J. Rettenmaier and Thomas R. Saving, "Medicare: Past, Present and Future," National Center for Policy Analysis, Policy Report No. 299, June 2007.
2. Source: U.S. Census Bureau
3. Do the Markets Care about the \$2.4 Trillion U.S. Deficit?; Financial Analysts Journal; Jagadeesh Gokhale and Kent Smetters; March/April 2007, Vol. 63, No. 2: 37-47 (doi: 10.2469/faj.v63.n2.4527)
4. Chiang assumes that the current steep rise in health care costs will ease over time, from 10 percent this year to 4.5 percent 10 years from now.
5. Andrew Chamberlain, Gerald Prante and Scott A. Hodge; "Who Pays America's Tax Burden, and Who Gets the Most Government Spending?"; The Tax Foundation; Special Report No. 151; www.taxfoundation.org/files/sr151.pdf

Sierra Sacramento Valley Medical Society
5380 Elvas Avenue #100 • Sacramento, CA 95819
916.452.2671 PH • 916.452.2690 FX • Email: info@ssvms.org

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