

Finding the Right Solution for Health Care Reform

By Diana M. Ernst

Sicko, Michael Moore (Dog Eat Dog Films, 2007)

Sick: The Untold Story of America's Health Care Crisis — and the People Who Pay the Price,
Jonathan Cohn (HarperCollins, 2007)

The Diagnosis & Treatment of Medicare, Andrew J. Rettenmaier and Thomas R. Saving (AEI Press 2007)

Who Killed Health Care?, Regina Herzlinger (McGraw-Hill, 2007)

More than a year from the presidential election, health care pushes ahead as an important domestic priority. Americans must decipher what is right for health care reform, but some pundits appeal more to the heart than the mind. This year alone, one film and three books take on this important topic, with mixed results.

The blockbuster health care production of the year is of course *Sicko*, Michael Moore's latest film. He introduces disturbing stories of uninsured Americans and those with denied claims — the victims of unreformed insurance, bad incentives, and soaring costs. But after a skillful pulling of heartstrings, Moore's movie lurches into a series of bewildering solutions to our problems. One contradictory case in point is Moore's rant against the private sector.

Moore cites a case from the Martin Luther King Jr.-Harbor Hospital in Los Angeles, where a patient died of a perforated bowel after lying on the emergency room floor for 45 minutes. Hospital errors at this facility have included unattended patients, resulting in the deaths of three. Hospital staff have issued the wrong medications and used taser stun guns to restrain psychiatric patients. Moore rails against private care and hospitals, but fails to inform viewers that this facility is not private. It is owned by the County of Los Angeles.

Sicko also portrays health care in other countries as golden models of government-run systems, but here Moore demonstrates his carelessness. *Sicko* presents Canada as a role model for the U.S. — but two years ago the Canadian Supreme Court found that govern-

ment monopoly health care violates basic human rights. The plaintiff in this case tried to pay privately for a hip operation rather than wait two to four years in the public line. When the Canadian government stopped him, he went to court, and won.

Another *Sicko* recommendation is Cuba's health care system, which treats Cuban party officials and a group of American patients in Moore's film quite well. Some 11 million Cuban civilians, however, must use dirty facilities, receive dated prescription drugs, and are even required to bring their own sheets, food, and soap to the hospital. It's no accident that when Cuban despot Fidel Castro needed surgery recently, he imported his physicians from Spain.

The textual equivalent of Moore's shockumentary is *Sick*, by Jonathan Cohn, a senior editor at *The New Republic*. Like Moore, Cohn focuses on the most unfortunate victims of our worst health care failings. A woman dies of breast cancer and her husband is left with a bill he can't afford to pay; a retired couple awaits their guaranteed lifetime of health benefits for his 30 years at a meat packaging company, but the company cuts retirees from the benefit list; a former nun, uninsured, relies on a Catholic, non-profit hospital for charity care, but it sues her for her inability to pay the bill.

In the course of each vignette, Cohn also notes the milestones of American health care history, including job-based insurance, the emergence of Blue Cross and community rating, commercial insurance and underwriting, the birth of HMOs, non-profit hospitals and

cost-shifting to patients. In his conclusion, Cohn waxes poetic about cold-hearted conservatives and visionary liberals, and blames the disorder of our modern health care system on “corporate debauchery and free market hysteria.” Government should run the show, he thinks, or at least maintain a heavy hand on it. And liberals are the ones who can make his misconception a reality.

Cohn’s best evidence for success are government monopoly health systems abroad, which face problems like long waiting lines, a lack of incentives, low quality, dated technology, and a lack of patient choice. Cohn’s other prop for government care is our federal Medicare program for the elderly, which is slowly bleeding American taxpayers dry. Dr. Thomas Saving of Texas A&M University estimated it will consume almost a quarter of all federal income taxes by 2020, three-eighths of all federal income taxes by 2030, and 11 percent of the GDP by 2080.

Dr. Saving is coauthor, with National Center for Policy Analysis (NCPA) senior fellow Andrew J. Rettenmaier, of *The Diagnosis & Treatment of Medicare*, which examines the true impact of imminent Medicare costs. Jonathan Cohn may not think it matters who pays our health care bills or whether Americans are even cost-conscious. This book will make it matter to you.

Thick with technical projected measurements and illuminating graphs, Savings and Rettenmaier expose the fiscal disaster that Medicare will become by revealing how cumbersome it is already. For example, when the program was instituted more than forty years ago, the cost of health care as a percentage of GDP was five percent; by 2004, it was 15 percent. At the same time, out-of-pocket payments fell. Americans paid 52 percent of their health care bills in 1960, but only 13 percent by 2004. And if you think the government isn’t involved enough in health care, take a look at federal spending: about nine percent of government spending went to health care in 1960, but it jumped to 32 percent by 2004.

One major reason for the rise in overall expenditures is third-party payers, or job-based health insurance and government programs which hide the true costs of health care. *The Diagnosis & Treatment of Medicare* accurately shows that without the third-party payer system, the price of health benefits to the consumer would more accurately measure product value. It is worrisome that health care costs are going up, while consumers don’t pay directly for most services they get in return.

Savings and Rettenmaier outline Medicare’s financial shortfalls, which can’t be helped simply by taxing future generations – Medicare would consume 20 percent of payroll taxes by the year 2080 (right now it takes three percent); Medicare would not survive by taxing those it intends to help either, the elderly. By the year 2020, relatively well off Medicare beneficiaries would pay 23 percent of their projected social security benefits to Medicare. Middle class earners would pay 31 percent.

The authors review five different reform proposals for Medicare and the degree to which each would potentially reduce deficits. None would avert Medicare’s pending insolvency. Savings and Rettenmaier identify Medicare’s harsh reality: even if we went so far as to reduce benefits for Medicare retirees, the need for American taxpayer dollars will continue to grow. Our first priority today should be to ease this tax burden for future Americans.

Maybe it’s time we have a new approach – prepayment for retiree health benefits in conjunction with structural reform of Medicare insurance coverage. We cannot expect to place the price of benefits on the shoulders of younger generations forever, but we can anticipate a more equal distribution of health care payments, and we must foster personal savings for future sustainability to make it happen.

The authors finish on an optimistic note, with a new idea that deals with Medicare’s Achilles’ heel – funding. The authors propose changing the current Medicare system from one that transfers payments to younger generations, to a system where people prepay for future Medicare consumption. This system would require Americans to pay throughout their pre-retirement years into a savings account that would be used during retirement for health coverage. This would encourage saving, self reliance, and ownership in health care, three things our system desperately needs.

This is why Regina Herzlinger’s *Who Killed Health Care?* is a proper conclusion to this review. Herzlinger, a Harvard Business School professor, paints a picture of the U.S. health care system as a “battle ground.” The armies are the insurers, hospitals, doctors, and the government. The doctors are losing, she says, and individual Americans aren’t even in the fight. Herzlinger wants to bring individuals to the front lines, and the key to their victory, she claims, is transparency in health care. A proponent of more individual control and cost consciousness in health care, Herzlinger says, “When

consumers don't know about the facts, the greater the power of those who do know them."

Herzlinger's vivid narrative reads more like a novel than a policy publication, but it is brimming with facts. The protagonist, a character named "Jack Morgan," is a fictional fusion of many patients in our system. He is in need of a kidney transplant and a victim of America's health care villains, including hospitals, employers, managed-care insurers, the U.S. Congress, and health policy academics. Following Jack through a series of events, readers absorb informative biology background and learn the essential problems with health care structure in this country.

Herzlinger notes the philosophical difference between the "villains" and the "heroes" in American health care: those who believe "big [government] is beautiful" will promote government cost controls and health care rationing. One example is the hospitals. Hospital mergers over the last thirty years have manifested today's "bloated behemoths" which are the largest segment of the modern health care system. Both non-profit and for profit hospitals have benefited from such mergers, and worked together to suppress competition such as specialty hospitals, which Herzlinger claims, have never been bad for consumers' health, but only for the health of general hospitals who lobbied in Congress to stop them. Congress of course, has also created bad policy by forcing managed care mandates on employers. Herzlinger puts it succinctly: "The kind of system that exists now hates innovation."

Fundamentally different, is the "small [government] is beautiful" crowd that entrusts the choice to individual Americans to utilize a free market, and to shop for even complex products. This process can lower the price and increase quality in health care too. For this kind of system to exist in America, Herzlinger argues, consumers need more information, and here she welcomes a role for government, to standardize and report health care information for consumers to use at their own discretion. This means abandoning the "big government" ideal, and it means a total modification of the existing health care villains.

And so we compare two representatives of each camp, "big is beautiful" and "small is beautiful." The makers of *Sicko* and *Sick* believe that the federal government will provide everything for everybody: technology, choice, and a free, efficient economy. Cohn says that universal

health care is "really about finding collective strength in our individual vulnerabilities."

Authors Savings, Rettenmaier, and Herzlinger recognize that people shouldn't pay for health care with their lives, but the right answer is not to scrap growth and innovation as we repair our system, or more lives will be lost in the end. The "small is beautiful" camp knows that realistically, universal health care suppresses individual autonomy *in the name of* vulnerabilities. The better solution is competitive reform, not big-government bureaucracy.

Diana M. Ernst is a public policy fellow in Health Care Studies at the Pacific Research Institute. She can be reached via email at dernst@pacificresearch.org or 415-955-6136.