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THE PROGNOSIS FOR NATIONAL HEALTH INSURANCE: A MISSOURI PERSPECTIVE

During the past 45 years, health care costs in the United States have far outpaced inflation, increasing costs to both individuals and government. As these costs have risen, the proportion covered by the government has increased, as well. In 1960, the private sector paid for more than 75 percent of health care expenditures; in 2007, that figure had dropped to 54 percent.

At the same time, individuals have become more isolated from these costs. In 1960, individuals paid nearly one half of total national health care expenditures through out-of-pocket expenditures. Beginning in 1967, however, the way health care is purchased began to reverse. Today, individuals pay only slightly more than $1 out of pocket for every $10 of health care expenditures.

This has resulted in a large and growing government "health care wedge" — an economic separation of effort from reward, of consumers (patients) from producers (health care providers) — caused by government policies. Rising government expenditures for health care are the main factor driving the growth of this wedge, which is a primary driver in rising health care costs, i.e., inflation in medical costs. Health care reform should be based on policies that diminish rather than increase this wedge.

The cost of the health care wedge translates to higher government deficits. Whereas health expenditures made up only 4.5 percent of total government expenditures (or less than $1 in $20) in 1960, by 2007 they constituted 20.3 percent of total government expenditures (or more than $1 in $5). These expenditures alone required the government to take 7.7 percent of all personal income earned in 2007 just to pay for the country's public health expenditures.

The consistent excessive growth of health care expenditures, compared

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to the economy's ability to pay, is the major weakness of the current health care system. The latest polling and U.S. Census data shows that more than 70 percent of Americans are satisfied with their current health care and insurance. Solutions to the problem of soaring health care costs must entail a realignment of incentives rather than overhauling the delivery system, thereby further dislocating the buyer's price from the seller's receipts.

President Barack Obama's priorities in drastically altering U.S. health care policy — a public health insurance exchange, mandated minimum coverage, mandated coverage of preexisting conditions, and required purchase of health insurance — do not address the growing health care wedge and its role as the fundamental driver of health care costs. In fact, they will further increase the wedge, and can thus be expected to further increase medical price inflation.

THE HEALTH CARE WEDGE

The health care wedge is one way of thinking about government involvement in the economy. When the government or a third party spends money on health care, the patient does not. The patient is then separated from the transaction in the sense that the costs are no longer his concern.

Consumers bear only a fraction of the costs from any additional health care service, and have little incentive to search for the best price. On the supplier side, doctors and other medical providers have no incentive to provide higher quality services for a lower cost. There are costs to doctors, however. One of the most important disincentives for doctors to monitor costs is the tort liability threat. According to the American Medical Association, defensive medicine in response to rising tort liability costs added $99 billion to $179 billion in additional costs in 2005 alone.

The health care wedge also separates patients from doctors in determining what type of care should be provided. Decisions instead are made by government, insurers, and judges who decide medical malpractice liabilities. The wedge reflects diminished efficiency as the current health care system created by government, lawyers, and third parties raises costs.

The effect on the overall economy is especially evident in data from the past 50 years comparing the changing levels of government expenditures to total economic growth. During periods in which that wedge decreased, economic growth increased, and when the wedge increased, economic growth decreased.

The current health care system blinds both patients and doctors to the cost of care. Government regulations and the third-party-payer system are also diminishing the market incentives that prompt implementation of the type of best practices programs that would help eliminate waste, fraud, and abuse. Whether the payer is government or an insurance company, the current process diminishes the competition and patient feedback that drives innovation.

CONSUMER COST

The growing government involvement in the health care industry has helped drive up health care expenditures. Studies have established a direct link between government Medicare and Medicaid expenditures and rising health care prices or other distortions that limit the efficiency of the health care market.

Higher expenditure growth can arise for three reasons. Either the price of the service is increasing, the quantity of the services consumed is increasing, or a combination of both. In the case of health care, it is a combination of both, but especially because of rising prices. The total quantity of goods in the U.S. economy increased by 377 percent between 1960 and 2008. The total quantity of medical services increased 712 percent — more than twice as much. However, while prices in the U.S. economy increased 490 percent, prices of medical services soared 1,239 percent — nearly two and a half times as much.

GOVERNMENT INVOLVEMENT

The proposed legislation would affect the status quo in unanticipated ways. A sharp increase in health care costs would force people off private insurance and onto the government plan. Further, as we know, the government rarely competes on a level playing field with private companies and firms, always tilting the field in its favor. A government plan embodying the president's stated priorities would operate with guaranteed taxpayer subsidies that would pressure the health care industry to price at uneconomical levels in order to meet political goals, regardless of economic merit or viability. This would further reduce the number of Americans with private health care insurance.

As a consequence, the increase in the number of people enrolled in the government plan would not reflect a corresponding decrease in the number of uninsured individuals. A $1.0 trillion plan based on President Obama's criteria would still leave 30 million people uninsured. The cost to reduce the number of uninsured, as estimated by the Congressional Budget Office, would be $62,500 per person.

Congress needs to focus on reform that promotes protection of what Americans want and demand most: immediate, measurable ways to make health care more accessible and affordable without jeopardizing quality, individual choice, or personalized care.

CONCLUSION

The bottom line is that increased government intervention in the health care market results in skyrocketing health care costs that limit dollar wage growth, accelerate medical inflation, and increase the total government burden on the private sector. These costs impose a large burden on the U.S. economy and underscore the importance of truly effective health care reform.

Reform undertaken in the Obama manner would render Missourians poorer and their state government (along with the federal government) sorely pressed for needed revenues to fund the reforms. Just as important, reforms based on the president's priorities are cost-ineffective with respect to expanding health insurance coverage, one of the primary goals of reform.

Reforming the problems with the current U.S. health care system is too

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important to do incorrectly. The guiding principle of beneficial health care reform should be that the current third-party/government-driven health care system needs to be changed, not enhanced. One of the objectives of reform should be a simpler system. The extraordinary complexity of the current system not only frustrates health care providers and patients, but also adds to the overall cost of providing health care. This complexity is also responsible for much of the waste in the system, which amounts to an estimated 30 percent of health care spending.

Rather than expanding the role of government in the health care market, Congress should reform health care by implementing a patient-centered approach that focuses on the patient-doctor relationship and empowers both the patient and the doctor to make effective and economical health policy choices. A patient-centered health care reform model would:

- **Begin with individual ownership of insurance policies.** The tax deduction that allows employers to own your insurance should instead be given to the individual.
- **Leverage health savings accounts (HSAs).** HSAs empower individuals to monitor their health care costs and create incentives for individuals to use only those services that are necessary.
- **Allow interstate purchasing of insurance.** Policies in some states are more affordable because they include fewer bells and whistles.
- **Reduce the number of mandated benefits that insurers are required to cover.** Empowering consumers to choose which benefits they need is effective only if insurers are able to fill these needs.
- **Reallocate the majority of Medicaid spending into simple vouchers for low-income individuals.** An income-based sliding scale voucher program would eliminate much of the massive bureaucracy needed to implement today's complex and burdensome Medicaid system.
- **Eliminate unnecessary scope-of-practice laws and allow non-physician health care professionals to practice to the extent of their education and training.** Retail clinics have shown that increasing the provider pool safely increases competition and access to care.
- **Reform tort liability laws.** Defensive medicine needlessly drives up medical costs and creates an adversarial relationship between doctors and patients.

Health care reform based on the president's priorities would exacerbate the current inefficiencies in the health care system. If implemented, they would significantly harm U.S. health care provision, patient welfare, and the economy overall.

By empowering patients and doctors to manage health care decisions, patient-centered health care reform not only would directly address the distortions weakening our current health care system, but it would simultaneously control costs, increase heath outcomes, and improve overall health care efficiency.

For more details, please see Show-Me Policy Study no. 19, which is available at www.showmeinstitute.org.

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