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A FIRST LOOK AT CLINTON'S HEALTH PLAN

The Clinton Administration's health proposal, unveiled by the President yesterday, indicates that despite the talk of competition and consumer choice in recent months, the White House sees the solution to America's health care problems in sweeping new government controls over the health care system. The government will decide what care each American will get, or if they will get treatment. It is ironic that just as Vice President Gore is publicly ridiculing the inept federal bureaucracy and unfathomable regulations, President Clinton wants to entrust the lives of all Americans and the management of one-seventh of the national economy to that same bureaucracy. Rather than competition, or even managed competition, the plan is Canadian-style rationing encumbered with vast insurance cartels.

To be sure, that is not the way the plan is characterized by Administration officials, but a cursory examination of the plan reveals its central features.

1) The primary tool for cost control is a national budget instituted through price controls.

Despite talk of markets, consumer choice, and price competition, the central cost control feature of the President's plan is a legal limit on the increase in insurance premiums. Insurance plans will have to be offered through regional "health alliances." These state-sponsored organizations will be given a budget, and they will establish premium caps for insurers in an attempt to comply with the alliance's budget allocation. To achieve the Administration's overall budget target, premium rises probably would have to be less than half today's rate of increase when the plan is fully phased in. All health plans, including those offered by self-insured companies, will face a legal limit on their revenue, while they will be required by law to provide specific benefits to enrollees. Insurers will be fined if their premiums exceed the target. This places insurers between the proverbial rock and a hard place. It also means:

✓ **Insurers will have to be even more forceful in disputing claims than they are today.** That will mean more bureaucratic wrangling between doctors, hospitals, and insurers—not less —and less freedom for doctors to decide how to treat their patients.

✓ **With such severe controls on premiums, a recent Congressional Budget Office study warns, care for those currently with insurance will suffer**. "Benefits would be lower, out-of-pocket spending for health care would rise, and technological progress in health care would probably occur more slowly," says the CBO.

✓ **Price controls will spread throughout the system as desperate insurers facing revenue caps press government for greater controls over providers.** The proposal already permits insurers facing fines for exceeding their caps to receive revenues from government-imposed fines on the doctors and hospitals in the plan. Moreover, the proposal gives states standby powers to regulate prices and control capital expenditures.

✓ **Employees of self-insured companies unable to keep their health spending growth below the cap (roughly the general rate of inflation) will be forced by law into the regional health alliance plans.**

2) Costs will be hidden through a mandate on employers.

For the Administration, the political benefit of a mandate on employers is that it effectively hides the cost of coverage from employees. But as every labor economist knows, employer payments for health care and other fringe benefits are in reality taken out the employee's total contribution package. A mandate on employers is really a mandate on employees to buy a plan specified by the Federal Health Board, to be created under the Clinton proposal, and the regional alliance.

Such a mandate will take a heavy toll in jobs for lower-paid workers. Interim subsidies will only delay the pink slips. Besides the adverse effect on small firms, sectors generally employing lower-skilled workers will experience heavy job losses. A recent study by the Employment Policy Institute notes that firms engaged in agriculture could see their labor costs rising by 15 percent, leading to a loss of almost 200,000 jobs, while the restaurant catering industry could see labor costs rise by 19 percent, with about 800,000 jobs lost. The EPI calculates that as many as 3 million Americans could lose their jobs.

3) The proposal will create huge cartels in the health care industry.

The state-sponsored health alliances will have enormous power to organize and police health plans. It does not take much imagination to visualize how the politics of this system likely will evolve. With insurers subject to price controls attempting to keep providers in check, and with physicians and hospitals no doubt organizing to bargain directly with the alliances and health plans, the outcome will be giant cartels at the state level. The individual patient will be but a small cog in the machine. Resources in the system will be determined by negotiations between large organized groups of providers and insurers, not by the consumer who is paying for the system, nor by the doctor treating the patient.

4) Either deficits or taxes will soar.

In an effort to build support for its plan, the Administration has combined a generous benefit package with special breaks for key constituencies. Small firms will receive subsidies. Larger firms are told their premium costs will be no more than 7.9 percent of payroll.

All these costly benefits and caps, granted up-front, are to be financed with huge cuts in projected Medicare and Medicaid spending—supposedly without any reduction in quality—and by enormous savings achieved by price controls. Such cuts cannot be achieved without denying care to many seniors.

But the cuts in elderly programs will be difficult to achieve politically, and impossible without reductions in services. Moreover, the Administration envisions vast savings from price controls, despite their long catalog of failure. Even supporters of price control generally maintain they can have only short-term "shock" value, but the Administration sees them as a permanent cost control tool. If controls fail, as history shows they will, the program can only continue if deficits are allowed to grow or huge tax hikes are instituted.

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Reforms are clearly needed in America's health care system. Costs are rising unnecessarily fast, due mainly to the perverse incentives for patients and providers under the current system. And job-related losses in coverage are a legitimate worry for millions of Americans, because the tax code effectively forces workers into company-sponsored plans. These problems can be addressed with surgically precise changes in the tax and insurance laws. But Bill Clinton's sweeping proposal to "cure" these deficiencies by turning over the entire system to central planners in government and the insurance industry will undermine the quality and availability of care for most Americans while creating a host of new problems.

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