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A Physicians Council Symposium

The Medicare Debate: Politics, Process, and Proposals For Reform

By Rep. Dan Miller, Grace Marie Arnett, John C. Liu

The Heritage Foundation

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A Physicians Council Symposium

THE MEDICARE DEBATE: POLITICS, PROCESS, AND PROPOSALS FOR REFORM

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Grace Marie Arnett, The Consensus Group

John C. Liu, The Heritage Foundation

The Van Andel Center
The Heritage Foundation
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THE MEDICARE DEBATE: POLITICS, PROCESS, AND PROPOSALS FOR REFORM

PHIL TRULUCK, Executive Vice President of The Heritage Foundation: Congressman Dan Miller of Florida is one of the stars among conservative legislators here in Washington. He is in his second term now, and he epitomizes a principled politician. It's a good way to highlight our session here today at the Physicians Council.

The Congressman had no previous political experience before he won in 1992. He came up here as a businessman and a college professor. Now he serves on the House Appropriations Committee and the House Budget Committee, which puts him in two good positions to do something about the huge federal budget deficit and federal spending. He represents the thirteenth district of Florida, which is the southwestern part of Florida. Most important, he serves on the Speaker's task force on Medicare reform, working with his fellow Congressmen on this key issue.

Also joining us is Grace Marie Arnett, the President of Arnett & Co., a consulting firm here in Washington, D.C. Grace Marie, who specializes in health care policy, is also a senior associate with the Domestic Policy Issue Program at the Center for Strategic and International Studies. She is also a founding member of the Consensus Group of Washington health policy experts who advance ideas on a market-based approach to health care reform. Because of her long-standing interest in tax policy, Grace Marie Arnett was asked to serve as executive director of the National Commission on Economic Growth and Tax Reform, recently formed by Senate leader Robert Dole and House Speaker Newt Gingrich and chaired by Jack Kemp. The 14-member commission expects to issue its recommendation in December 1995.

And finally, joining us today is John Liu, Health Policy Analyst of The Heritage Foundation. John is a native of California and before coming to Heritage in 1994 served as Legislative Counsel to Congressman Cliff Stearns (R-FL), where he helped to draft the Consumer Choice Health Security Act, the legislative embodiment of The Heritage Foundation's consumer choice health care reform proposal, sponsored by Congressman Stearns and Senator Don Nickles of Oklahoma and 24 other Senate cosponsors. John holds a bachelor degree in political science from the University of California at San Diego and a Juris Doctor degree from the Tulane University School of Law in New Orleans, Louisiana.

Congressman Miller, please give us your thoughts, and thank you again for joining us.

THE URGENT NEED TO REFORM MEDICARE

REPRESENTATIVE DAN MILLER: Thank you for having me here. My district in Florida has more seniors than any district in the United States: Sarasota, Sun City, Port Charlotte, Venice. It's a great area to represent.

Medicare is really the biggest issue we face this year. It is the biggest issue because of the enormous fiscal pressures if we don't address it. There is one overriding fact: Medicare is going bankrupt. We have no choice. For health care reasons, it has to be addressed. From a political standpoint, they say this is the third rail of politics: It will kill you politically. It is a very difficult issue, but we have to do it. Let me share with you some of my thoughts and some of my observations on what we can expect in this process over the next several months.

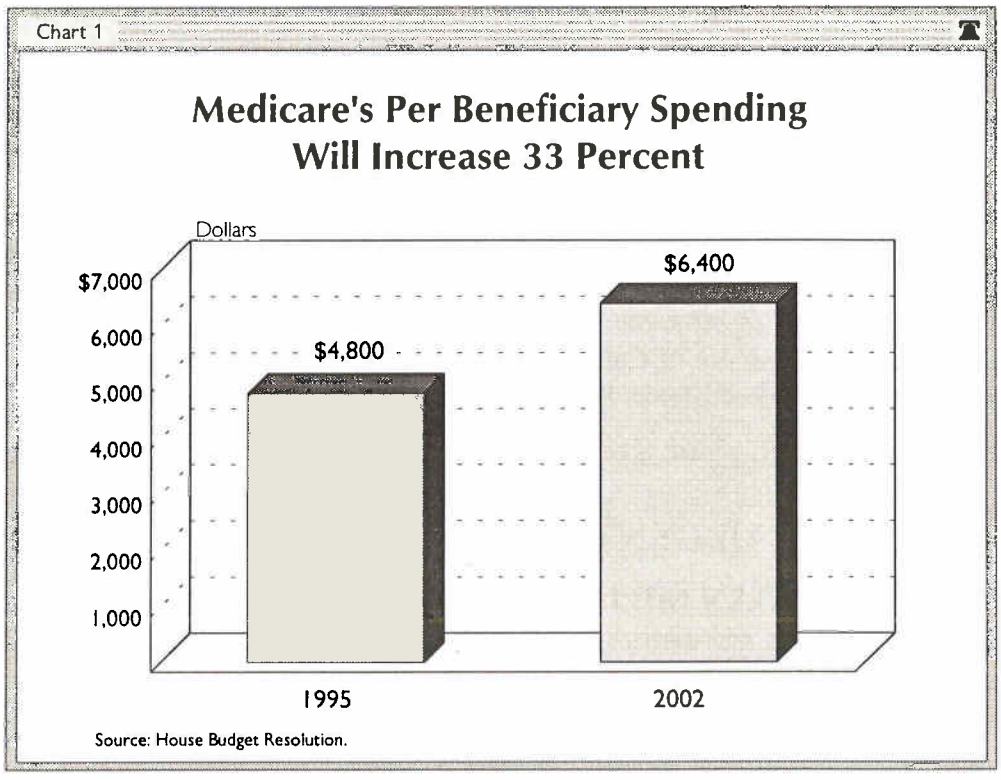
Our House leadership—Speaker Newt Gingrich and Majority Leader Dick Armey of Texas, in particular—are very aware of the need politically to convince the American people of the critical importance of this issue. The focus right now is to make the American people aware that we have a big problem. As I said, Medicare is going bankrupt. We know that. Everybody here, I think, already knows of the Medicare trustees' report authored by HHS Secretary Shalala, Labor Secretary Reich, and Treasury Secretary Rubin. The trustees tell us that there is no question: Medicare is going bankrupt in the year 2002. We need to make the American people aware of that massive shortfall and of its implications.

THE CLIMATE OF OPINION

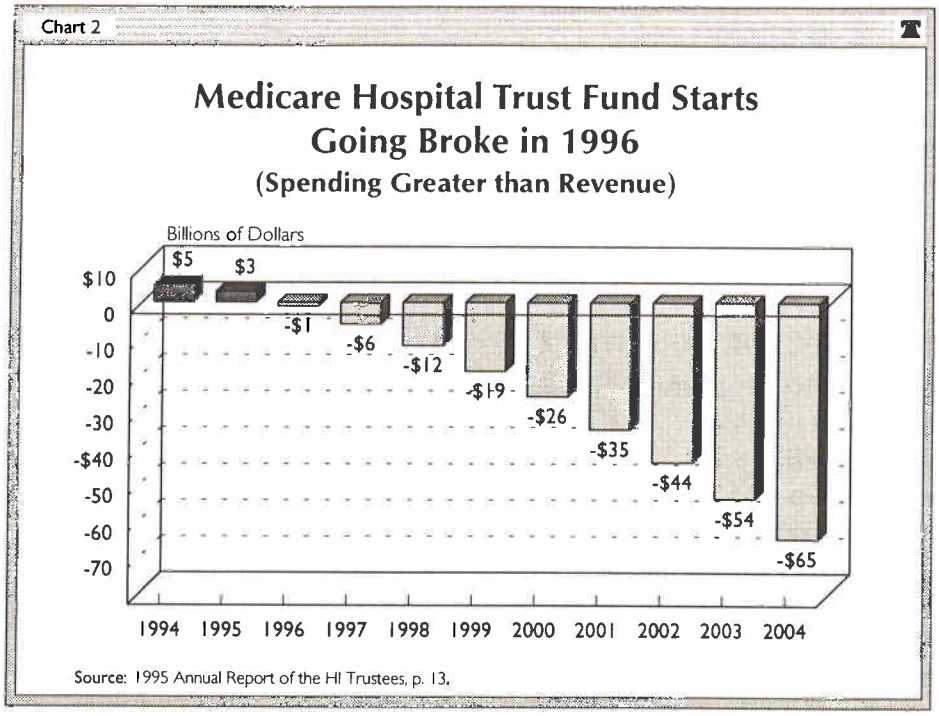
We are making progress. We just got some polling information on this topic, and it is interesting. Two months ago we did a poll, and nobody knew Medicare was a problem. But the polls that were just released yesterday by Linda DiVall say that there is a big change. Before, nobody would believe there was a problem with Medicare. Now when you ask them if there is a problem, 63 percent of the American people believe there is. In fact, 34 percent of the American people now realize there is a problem without the pollster even mentioning it to them. So we have made, I think, tremendous strides in raising the awareness of the American people. You cannot go to the solution until there is an awareness of the problem.

We are also making progress in explaining what we are trying to do. We are not cutting Medicare spending. Whenever you hear Speaker Gingrich talking, that it's going bankrupt, he notes that we are going to spend more money on Medicare. What we are doing is reducing the growth of spending on Medicare.

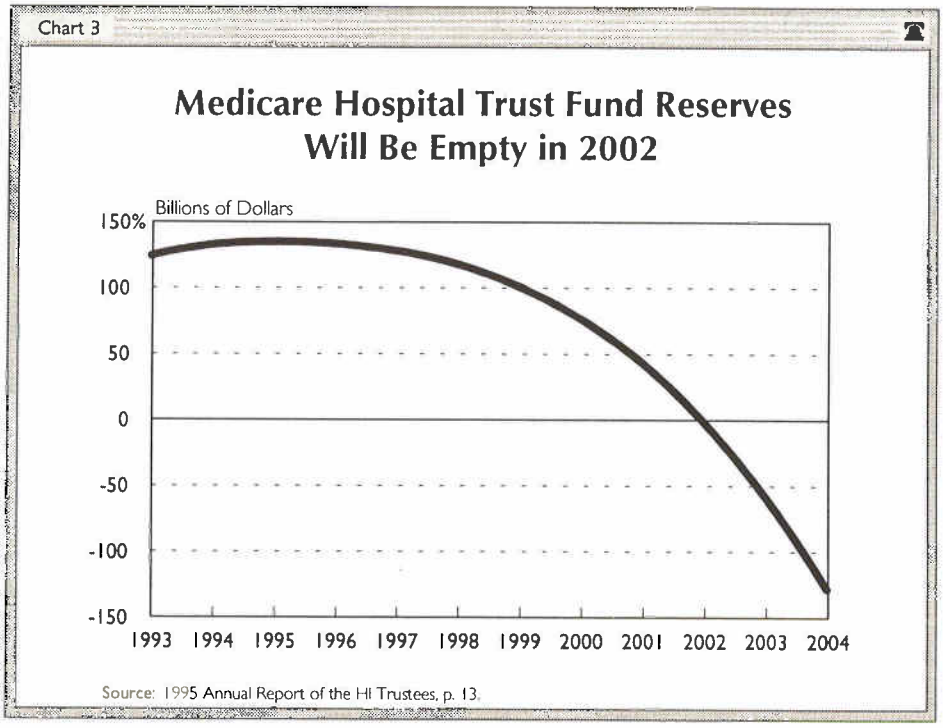
We are starting to get that message out, too. Two weeks ago, Tom Brokaw and NBC News came to my district, where we held a town hall meeting. When Brokaw introduced this segment on the national news, he said, "Republicans want to reduce the growth in spending." The following week, ABC News did something on the same topic, and Peter Jennings introduced a segment about different Members of Congress and about how they are handling Medicare. Jennings introduced it by saying, "Republicans want to reduce the growth in spending on Medicare." Sunday night, I was watching the NBC News and they even showed a segment with President Clinton, who said, during his talk with Speaker Gingrich, that Republicans want to reduce the growth of spending on Medicare.



So we are making great progress. Now we are starting to say, "We're not cutting Medicare; we're slowing the growth of spending." These are the numbers: We are going from $4,800 a person to $6,400 a person (see Chart 1). That is not as much as future spending projections would be if we did nothing. Medicare is going bankrupt, but it is a very important program, and we must preserve it; we must save it; we must strengthen it. In doing so, we will still be spending $1,600 more per Medicare beneficiary.



Our next task is to explain to everybody why Medicare is going bankrupt. Much of the problem is in the design. Medicare today is designed to increase spending on health care rather than control it. Members of Congress have always tried to ratchet down on the providers; go back and look at projected savings in past budget reconciliation bills. In drafting those bills, Members of Congress said, "We're going to save $50 billion," but they ended up saving very little. The desired savings never did materialize.



Next year, in 1996, the amount of money going into the Medicare trust fund, which is Part A, is going to be less than the money that is going out, for the first time. The Medicare Part A trust fund is paid for, through payroll taxes, by employers and employees. Next year is the first time they will have had a negative figure for the year (see Chart 2). The Medicare trust fund right now has about $130 billion in surplus; in the year 2002, it crosses the line to zero. So it is very easy to see what happens to the fund. It is not just hypothetical; these are real numbers (see Chart 3).

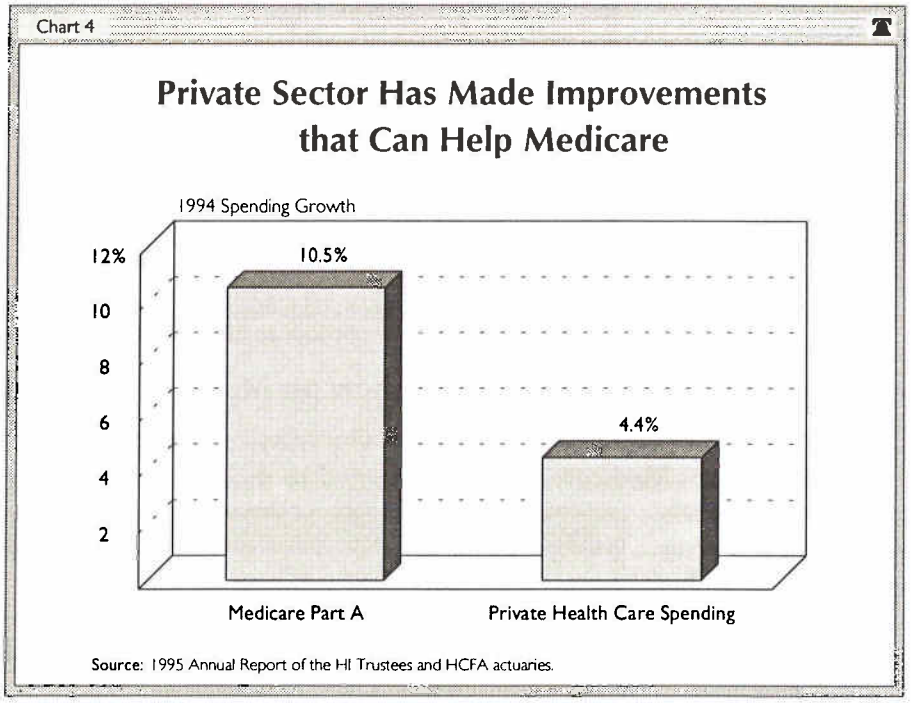
TAXES AND PREMIUMS

There are ways to strengthen Medicare, but what if we don't? If we do nothing about reforming Medicare, the most likely choices are to raise taxes on working families or to increase premiums dramatically for seniors. There is no escape. You would have to raise the payroll tax over $1,700 for somebody who makes $40,000 a year or raise the Medicare premiums on senior citizens by 300 percent—and neither of those options, in my view, can be sold to the American people. You cannot raise premiums on senior citizens by 300 percent, and you just cannot raise payroll taxes by 100 percent. We have to come up with a new solution.

PRIVATE SECTOR EXPERIENCE

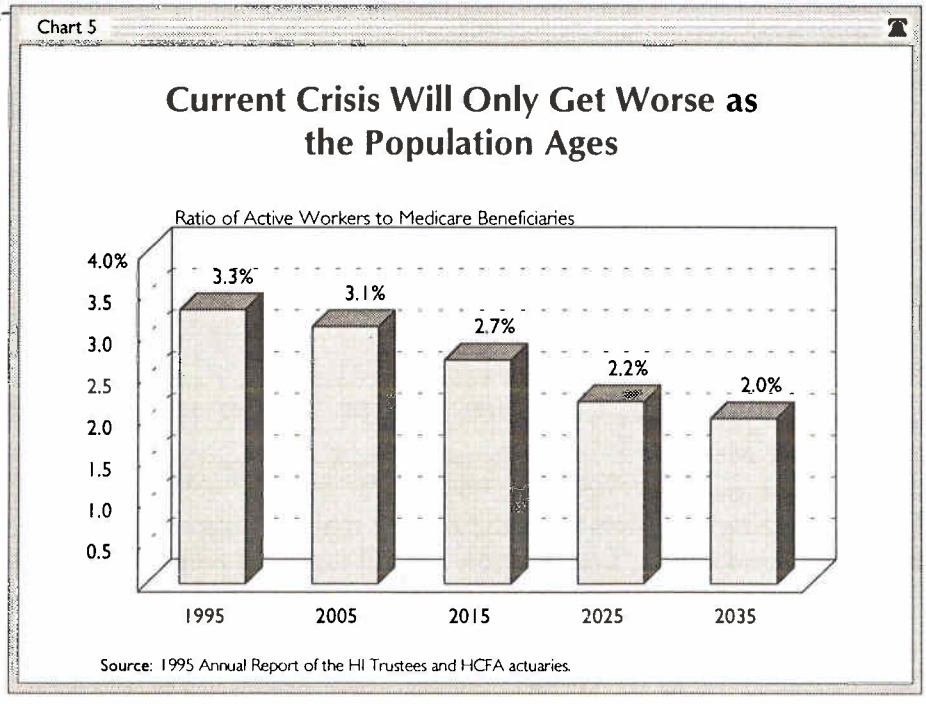
Look at the experience of the private sector. Costs in Medicare are now going up 10.5 percent; the private sector's costs are going up 4.4 percent (see Chart 4). CEOs of large corporations have been telling us about the areas where health care costs are having a negative growth rate. At a House Budget Committee meeting, we had a presentation by IBM, Texas Instruments, and Eastman Kodak. They are all having a negative growth in their cost of health care, while we are having double digit increases in Medicare. So there is a lot to learn from the private sector. We can do a lot better in Medicare than we are doing today.

Chart 4



Some, both in and out of Congress, are not only afraid of this issue, but also think that we can just put it off. They are wrong. We have to address the problem expeditiously. The reason: Medicare's financial crisis is severe today and will only worsen tomorrow as the American population gets older (see Chart 5).

Chart 5



TECHNICAL ISSUES

One of the technical issues that we have is scoring savings for private sector-style market efficiencies. Everybody here in Washington knows what budget scoring is. The Congressional Budget Office (CBO) estimates the cost of a policy; depending on how the policy is designed, it can be scored by CBO for savings. The question is, what is or is not a scorable saving? President Clinton had the same problem two years ago with his health care reform bill.

There are other cases—for example, medical malpractice. We all agree that malpractice reform will save money, but the Congressional Budget Office says, "We don't know how much it would save, so you don't get any credit for passing malpractice reform." The same issue arises with managed care: HMOs do not necessarily save money. As we know, the Mathematica study came out and said you may even end up losing money on managed care. But should we simply let the CBO scoring drive our policy? That is an issue we have discussed, and it makes it difficult.

MEDICAL SAVINGS ACCOUNTS

I like the medical savings account option (MSA) in a reformed Medicare system. It is probably going to be one of the options available. The problem, critics say, with medical savings accounts is adverse selection; that is, the healthier people will want medical savings accounts and will desert conventional insurance. What this means is that in designing a medical savings account, we have to make sure that adverse selection is minimized.

Remember that some critics say the very same thing about HMOs. The fear is that younger and healthier people will enroll in HMOs and desert traditional insurance, again causing a severe adverse selection problem. But, again, it depends on how you design the system. This problem is not overwhelming the Federal Employees Health Benefits Program (FEHBP), where we have a series of consumer choices. I can go to HMOs, PPOs, or fee-for-service. Our idea is to give people choices like that. I think that the MSA may also be one of our options; we are moving in that direction.

KEEPING TRADITIONAL MEDICARE

Should we treat new enrollees differently than older enrollees? I think, when you take 85-year-olds, it is much harder to change their health care behavior patterns than it is for 65-year-olds. We have said that we're going to maintain the traditional Medicare program. Some people are afraid of HMOs. New people entering the Medicare system should be treated differently than those over a certain age. Their life experiences are different. This is another practical item to be resolved.

PRESCRIPTION DRUGS

Getting away from all the technical issues, I think it is very important to make it possible for elderly people to buy prescription drugs either by choosing an HMO or another managed care provider or through some other innovative option, including a new fee-for-service option.

Again and again, we see that the most important single concern among senior citizens is the cost and availability of prescriptions. Their second concern, after prescriptions, is long-term care. When we talk about a general strategy in health care policy, we should be sensitive to this issue of long-term care and provide greater incentives for people buying long-term care. It is part of our larger health care reform strategy.

SOLID INFORMATION

Finally, we should encourage states or private contractors, not the HMOs, to bring solid information to seniors. This addresses a lingering insecurity that seniors feel about making choices.

One of our House Budget Committee proposals was to provide that kind of information. As a federal employee or retiree, you can go to a bookstore today and buy a book that explains all the different options we now have. That is perhaps still a little complicated. Federal workers and retirees like their system, but I think we can do it in a better, more simplified way. Under Medicare today, there are some choices, under Medigap, of supplemental insurance. If you want a Volkswagen or if you want a Rolls Royce, it's your choice. You pay for what you get. So choice is not utterly foreign to senior citizens.

None of this is going to be easy. There are a whole series of challenges. Medicare is a very complex system. You have Medicare Part A and Medicare Part B and supplemental insurance, as well as a host of big private contractors and supervisory roles played by the Health Care Financing Administration, issuing thousands of pages of guidelines. It is a paperwork monster, but it was designed in 1965.

It is time to get Medicare ready for the 21st century. It has to be addressed by the House Ways and Means Committee and the House Commerce Committee. It has to go to the House and Senate floors. We want it to be resolved by the time we pass the federal budget. We have made a commitment: We will come up with a way to reduce the growth in spending to save Medicare and balance the federal budget. It is not only a promise; it is our duty.

THE CHANGING POLITICAL DEBATE

GRACE MARIE ARNETT: It is a pleasure to be here with you at the Heritage Foundation's Physicians Council meeting.

It was a pleasure to join you in hearing the presentation last night by Senator Bill Frist, a heart transplant surgeon and colleague of yours, who has demonstrated the power of one person's commitment to change. As all of you know, Dr. Frist decided to run for the United States Senate last year and won a huge upset victory in November.

You also make tremendous contributions to your profession, both by your work, day in and day out, treating patients and by your added involvement in the policy process through the Physicians Council. By being part of this organization and by getting the word out about the central importance of the physician-patient relationship, you make a crucial contribution to health policy.

I want to make a few preliminary comments as a transition into my remarks about the politics of health care reform. Dr. David Brown, Chairman of the Heritage Physicians Council, mentioned my work with the Consensus Group.[1] We have done a great deal of work on market-oriented health care reform, advancing ideas that will help to restore the physician-patient relationship. But making any changes in the health care system is like turning a great battleship. It is so huge, it can only be done by degrees. If you try to spin a battleship too quickly

1 The Consensus Group is an informal assembly of health care policy experts from the American Enterprise Institute, Cato Institute, Heritage Foundation, National Center for Policy Analysis, Center for Strategic and International Studies, Empower America, Institute for Research on the Economics of Taxation, Progressive Policy Institute, and other groups focused primarily on health policy.

you put the ship at great risk. You must instead set a clear course and begin to make those first few-degree turns carefully.

The current employment-based system offers security to tens of millions of people. But it also has serious flaws—leaving tens of millions of people without coverage and driving up the costs of health insurance and medical services. Yet it must not be changed too quickly, as we learned too well during the health care reform debate.

Many of the changes advocated by earlier speakers, including Bob Moffit of The Heritage Foundation and Kevin Vigilante of Brown University, are important steps in moving the system in the right direction—changes like giving individual Americans vouchers and tax credits for the purchase of health insurance. These changes would begin to give individual Americans more control over their health care spending choices as a transition to a more individually based health insurance system. Certainly, many employers will continue to offer health insurance as part of their employee compensation packages. If a person's employment-based plan offers the best option, they could choose that plan. But if their labor union, their professional association, or their school district offers them a better deal, they could choose that, instead. Personal choice is key.

Now, I would like to talk about the politics not only of general health care reform, but also of Medicare. And I want to share with you what I believe is driving the debate. But before I do, my basic conviction, and my absolute, solid sense of the medical profession, is that you will prevail. The Bible's *Book of Sirach* (also known as *Ecclesiasticus*), Chapter 38, says: "Hold the physician in honor, for he is essential to you, and God it was who established his profession." I believe this Biblical passage shows that ultimately the independence and integrity of the medical profession will be preserved.

The medical profession, as Dr. Brown said, cannot function without physicians. Nurses, physicians' assistants, and other medical professionals may gain more authority to do specific procedures. And that can be good in terms of economic efficiency. But medical care must be coordinated with the physician's supervision.

These last few years have been traumatic for your profession. You have been "rolled" politically. But this can't last. The medical profession cannot move forward without physicians. But every single physician must ask himself or herself where he or she can make the most difference. And being part of this organization is a very, very good start.

THE BATTLE OVER MEDICARE

Let us look at the terrain and the environment of this round of the battle over health care reform. If the rhetoric over Medicare spending were to be stripped away, it is clear that the health care issue is once again being used as a battleground for a major political clash over money and power. The debate over funding health care for the elderly is a debate over control of billions of tax dollars. It also represents a pivotal battle over the direction of federal programs.

Medicare is in serious trouble. The Medicare trustees, including the Clinton Administration's Treasury and Health and Human Services secretaries, have warned that the program will go bankrupt in seven years unless major changes are made. Either taxes will have to be raised further or the program must be restructured. Raising taxes is the old way of doing business in Washington; updating the program to inject more market efficiency is the new way. It is a clear choice.

Liberals have tried to entwine Medicare with the balanced budget agreement and tax cuts, but Medicare is a separate program with separate problems that must be addressed directly.

In this latest incarnation of the health care reform debate, the voters are as alienated as they were last time, confused by the tactics and distortions. During the last phase of the health care debate over the Clinton bill in 1993 and 1994, the public was turned off by talk of health alliances, vast new bureaucracies, and fines, penalties, and jail terms to enforce the plan. None of this connected with them—well, it connected with them; it scared them. But they didn't believe that the changes were going to help them in any meaningful way. And they were right.

This time, the debates on health care have little to do with the health care system again, and everything to do with money and power. In 1993 and 1994, health care reform was to have been the vehicle for Congress and the executive branch to gain a lock on political power by providing health care that's always there for the middle class. The middle class didn't bite; in fact, they bit back.

SOLID INFORMATION IS KEY

The American people had every reason to be afraid of the Clinton Administration's Health Security Act. I don't think anybody did more to give the American people the details of what was in that bill than The Heritage Foundation, particularly Bob Moffit. There were probably, at one point, maybe seven people in this city that had read the whole 1,342 pages, and Bob was one of them.

Bob Moffit did a line-by-line analysis, not only of what was in the bill, but what its implications were for the health care system. And he completed his analysis in just a few weeks. The background paper began circulating in policy circles, and people who were not going take the time to read the bill read Bob Moffit's analysis.[2] It was a very important contribution to the debate.

Soon after the bill was released, several of us who had read the bill, including Bob, gathered around a table and began exchanging revelations: "My goodness, did you see what was on page 342?" one said. "Oh, no, but did you see page 946?" another answered. We were all aghast at the sweep and intrusiveness of this piece of legislation.

The more the American people learned about the details of the bill, the more scared they got. And they learned about it because of that bedrock work by the health policy community.

During the debate, the things that were most politically charged came percolating to the surface: employer mandates, alliances, regulations, fines, penalties, jail terms. Then people started to say, "Wait a minute. This is un-American." This change in popular opinion begins with the kind of detailed analysis that think tanks like The Heritage Foundation do.

The American people got so frightened by what they saw that they said, "We don't want anything to do with that bill, and we don't want anything to do with anybody that cooked up that bill." So they threw many of the liberals in Congress who supported the bill out of office.

Fear is a very effective political motivator, and now fear is being used to unnecessarily scare seniors in the Medicare debate. To quote House Majority Leader Dick Armey of Texas, "The Democratic Party once stood firm on the conviction that Americans have nothing to fear but fear itself. Now the liberals stand firm on the conviction that they have nothing to offer but fear itself."

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2 Robert E. Moffit, "A Guide to the Clinton Health Plan," Heritage Foundation *Talking Points*, November 19, 1993.

There have been some very telling quotes in the health care reform debate. Consider the insights of Judith Feder, Deputy Assistant Secretary for Health Policy at the Department of Health and Human Services. In defending the Clinton plan, Judith Feder said, in a quote on the front page of *The New York Times* on December 5, 1993, "What we're trying to do is replace the ineffective, inefficient bureaucracy of the unfettered marketplace."

At a conference in Chicago a couple of weeks ago, Ms. Feder said, "We're going to do to them what they did to us." So flags are up. Liberals in Congress are now clearly trying to convince Americans that conservatives are gutting Medicare to pay for tax cuts for the wealthy. This is wrong.

INTERESTS ARE SPECIAL

Many special interests are lining up to keep Medicare spending at its current unsustainable level. Medicare spending cannot continue to rise at 10 percent a year without bankrupting the program. The Medicare trustees themselves have acknowledged this. President Clinton has acknowledged this. But for every dollar the federal government spends, there are at least two constituencies: the person who gets the services that are provided and the person who gets the money who provided those services. Every dollar that is saved by making the program more efficient is a dollar that will not be spent. There are a number of groups with a short-term view that want to keep spending federal tax dollars at the current rate, despite the consequences for the long-term solvency of the Medicare program and the future benefits of seniors and seniors-to-be.

And they could win. Medicare is highly subject to political pressure. It illustrates the key reason why government involvement in the health sector is a bad thing: Decisions are based upon politics, not economics, innovation, or efficiency. Short-term political expediency often prevails over long-term solvency.

So now we have the special interests who, last time, lined up to fight government-run health care at all costs this time lining up to save government-run health care—in the form of Medicare—at all costs. Washington politics is nothing if not paradoxical. These special-interest groups are a grass-roots army, and they are arming to fight as Congress tries to restructure and save Medicare.

Anybody who looks at Medicare's numbers knows that something has to change. Unless Congress is successful in getting to the root of the issue and rethinking the way the program is structured, Medicare's future will continue to be in jeopardy.

POLITICS AND TAXES

Let's turn now, for a moment, to the debate over tax cuts. In 1980, Ronald Reagan swept into the White House and brought a Republican Senate with him on the promise to revive the American economy with across-the-board cuts in income-tax rates. And the largest peacetime expansion in this nation's history ensued. There are a lot of debates about why that happened. There is almost no debate that an extra dollar in the pocket of an American citizen is a better way for that money to be spent than an extra dollar spent by the federal government.

President Reagan did what he said he was elected to do: cut taxes. In 1990, President Bush said, "Read my lips: No new taxes." And then he broke his pledge. Pollsters who look for underlying trends say that President Bush's soaring popularity after the Gulf War was really only superficial; underneath, the popular anger at him for breaking his pledge over tax cuts never really went away, and he was defeated in 1992.

In 1992, President Clinton ran on a promise: middle-class tax cuts. Not only has he not delivered on a tax cut, but he won, by one vote, the largest tax increase in history in 1993. And

he was proposing yet another tax increase through his health care bill. Look what happened in 1994: The voters threw out dozens of legislators who supported these policies.

Get the message? If conservatives haven't learned the lesson that voters mean business when they talk about tax cuts, the liberals certainly have. They've learned that if they can stop conservatives from cutting taxes, they have a shot at regaining power.

Liberals know they can't win the debate, an open debate, over raising taxes. They know they can't win an open debate over whether or not we should have a balanced budget. Medicare is the liberals' logical battleground, because it obscures what we're really talking about and there is a tremendous, electrifying charge of politics and seniors being frightened about losing their benefits.

In 1996, liberals may not have a better idea about what they want to do if they're elected. But they certainly will try to use the politics of Medicare to stop conservatives from fulfilling their promises.

Medicare is the battleground. It affects all of you on a very immediate basis, because it affects your ability to get fairly compensated for the services that you provide. That's not what this debate is about. In a more efficient market, you will get fairly compensated and likely will be unshackled from the huge burden of paperwork that Medicare demands.

Nor is this debate about seniors getting less health care. The market could easily take care of giving seniors a benefit that's worth $4,800 today and $6,400 in seven years and give them the same, if not better, health care more efficiently. But Members of Congress may not have a chance to do that if conservatives get thrown out because the Medicare debate blows up in their face.

I urge you to continue to participate in the debate, to continue to stay informed about the real issues that are being decided, and to help in the effort to put both the Medicare program and the whole federal budget on a more sound footing.

INFLUENCING THE POLICY PROCESS

JOHN C. LIU: I'd like to follow up on Senator Bill Frist's comments last night, supplementing what Grace Marie just said on the politics of health care reform. Congress is the key actor, and we should be clear about what we expect in this Congress, short-term and long-term. As physicians and members of the Heritage Physicians Council, you can be instrumental in playing a key role in the policy debate.

Bob Moffit and I attended town hall meetings across the country last year at which different Senators and Congressmen supported our position on where this health care reform should go: consumer choice and competition.

Congress unfortunately does not have the stomach to tackle comprehensive health care reform. This is partly because last year's debate was so grueling, the bills so detailed, and the legislative analysis so time-consuming that Members of Congress, with so much else on their agenda, fashioning budget and tax policy in particular, simply don't have the time in the remainder of this session to deal with the intricacies and complexities of comprehensive health care reform.

But the problems remain. You still have a growing uninsured population in this country, mostly middle-class and lower-middle-class and low-income individuals working hard and struggling to put food on the table. At the same time, too many Americans have no practical access to health insurance, because current federal policy, through the tax code, has penalized them,

making it significantly less affordable. If their employer, maybe a small business, cannot afford to give them health insurance, even a very scaled-down policy, they are in serious trouble.

This same population that is uninsured is currently providing a subsidy to a growing population that is already getting health insurance. Through the tax code, through the HI payroll tax, they are subsidizing, and helping subsidize, the health care of our growing Medicare population, those 65 and over. And that tax burden is getting heavier. That is another reason why we must have Medicare reform this year. The Speaker of the House, the Senators on the Finance Committee, and others have wisely decided to tackle this issue of Medicare reform this year.

It will be tough, but it must be done. As the Medicare trustees have stated, if nothing is done now, this system is not going to be around by the year 2002. That's only seven years away.

Senator Frist told you last night to go back home and talk to your physician colleagues. As physicians, your views and opinions on health care issues are respected. Friends of mine who are doctors, and in their training and their residencies, are very impressed when they hear a sound idea from a colleague. When doctors hear a politician tell them something, a red flag goes up. But when a colleague offers an educated opinion or shares insights into what's going on, they tend to pay more attention. After all, you are the professionals providing health care to the American people.

Visit your Congressman or state legislator back in the districts. It's perhaps more inconvenient to come to Washington, D.C., and meet your Senator or Congressman, but go back home. Call the scheduling office back in the district. Find out when your Congressman will be home in the district office, and be sure to schedule an appointment. Even fifteen minutes of their time, as Senator Frist mentioned, is valuable. You do not need to travel to Washington, D.C.

Talk to your specialty organizations. As a colleague of mine last year said, unfortunately, organized medicine seemed "brain dead" when it came to health care reform. Even some of your specialty groups, unfortunately, have had only one obsession: wanting to be a player at the table. That is not necessary. Groups in Washington, D.C., as you learned during last year's health care debate, do not always represent your philosophy. They often hire former staffers from the Hill who articulate official Washington's point of view. Because Congress has been dominated by liberals for the past forty years, far too many professional organizations have hired top liberal staffers from Capitol Hill to run their Washington offices, allegedly representing your interests back home. As you know, however, that is often not the case.

There is no magic solution to influencing public policy. Write to professional organizations' newsletters and make your opinions known; write to your colleagues; go back and visit your alma mater if you can. Try the front door. Several of my friends have visited their med schools back in California and New York and have had maybe an hour's worth of time with their former dean. An even better idea: You should spend perhaps an hour or so lecturing future med students on the direction of health care policy and its impact on medical practice.

This Congress, in its first four months, already has achieved more in health care policy than the last Congress achieved in two years. A positive provision passed through the House under the Contract with America is that the self-employed now have access to a 25 percent tax deduction for their health insurance. And that has already been signed into law. Federal savings accounts are going to be introduced this afternoon. Congressman Bill Archer of Texas, the chairman of the House Ways and Means Committee, will be introducing an MSA bill.

Congressman Bill Thomas of California, the Health Subcommittee chairman, has introduced an insurance bill which takes care of pre-existing conditions and allows individuals who change jobs, and who have been insured, to retain that coverage and not be penalized if they

wish to switch insurers. Portability is still a major goal of health care reform, and work along this line is underway in the Senate.

Again, this is in the first four months of the new Congress. Incremental changes are likely: not as broad or sweeping as the government-run Clinton plan or as the free-market Heritage Foundation plan, but we will see advances in the right direction. Unfortunately, a lot of these measures are being advanced simply in the context of the present flawed system: a tax policy which penalizes individuals for choosing their provider or their health plan outside of the employer's health plan.

So there's a lot more to be done.

Medicare, as Grace Marie Arnett mentioned, will be the battleground for this Congress. I was at a conference not too long ago with Congressman Pete Stark, the former chairman of the Health Subcommittee of Ways and Means, a prominent liberal from my home state of California who proudly says that, as the chairman of the House Health Subcommittee, he was privileged to serve as "the CEO," along with eleven members, the "board of directors," of the Medicare program. This is a health insurance company, he said, that provides health care to 38 million Americans.

That's a neat way of putting it. But apparently the shareholders didn't like their CEO and board of directors, voted them out, and installed a new CEO and board of directors for Medicare. This new board, I'm pleased to report, has embraced the idea that a free market is the best mechanism for controlling costs when it is allowed to work, and it should work for America's senior citizens.

Congressman Dan Miller has been working on a draft proposal to present to the House of Representatives. He and several other members of the House Commerce Committee and the House Ways and Means Committee, which have jurisdiction over Medicare reform, will be working on this proposal.

Medicare is in deep financial trouble. But Pete Stark and Congressman Sam Gibbons of Florida, responding to the Trustees' Report, a very nonpartisan report which comes out every year, say, in effect, "It's nothing to get hysterical about. We've been reading these predictions for the past several years, and they're always talking about insolvency. It's nothing to get hysterical about."

And I would agree. Let's not get hysterical about it. But let's get concerned about it, because this 30-year-old system was designed to insure the health of those who were elderly and truly needy. While it would be bad form to get hysterical, it is high time to get serious.

Medicare can't control costs, except through price controls and shifting costs to the private sector. We've seen the federal government slowly take tighter control of doctors and hospitals and implement more reams of rules and regulations. I don't need to go into the RBRVs, the DRGs, or the PPS. You know better than I do about the impact of these complex systems of fee schedules and price controls. They don't work.[3] But unless something is done now, we should be very concerned, not just for our future, but for our parents' future, because this is a

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3 For an excellent account of the failure of price controls in the health care sector of the economy, see Edmund F. Haislmaier, "Why Global Budgets and Price Controls Will Not Curb Health Costs," Heritage Foundation *Backgrounder* No. 929, March 8, 1993. See also Lois J. Copeland, M.D., "Please Do No Harm: A Doctor's Battle With Medicare Price Controllers," *Policy Review* No. 65 (Summer 1993).

system that is designed to insure that we get quality health care in our golden years. And, as a nation, we are getting older.

Liberal special-interest groups have been very vocal already, talking about Draconian cuts. And they know how to play the game. They've placed ads in the *Washington Post* and *New York Times* about what this Congress is going to do, or might do. We are being asked to write our Congressmen to make sure that Grandmother isn't going to get cut off from health care.

While that is a good short-term scare tactic, the awful negative numbers in Medicare will force a public reckoning. Working Americans could be faced with huge taxes, including additional payroll taxes of 3.5 percent or even 3.9 percent.[4] In my opinion, when the American people come to realize this, liberals in Congress will have lost credibility on this whole issue.

Think back to the Medicare catastrophic debate in 1988. Liberals lost credibility. They lobbied to add benefit after benefit after benefit to what was, back then, a very lean Medicare catastrophic package. If it had passed as Bob Moffit's colleagues in the Reagan Administration had designed it, it would have been affordable. And it would have been workable.

Unfortunately, special interests and liberals in Congress saw it as a great opportunity to lump on more benefits. And Congress back then was not well-known for saying "No." So they added benefit after benefit, the cost soared, and the bill collapsed, to be repealed only a year later.[5]

Nevertheless, as far as politics is concerned, Medicare reform is going to be tough. The media like to call any reform proposals Draconian cuts, for example. Heritage has put forward a major Medicare reform proposal that we just finished within the past twenty-four hours. We have drafted a defined contribution proposal that a lot of members on Capitol Hill have shown an interest in advancing.

A MODEL FOR REFORM

Basically, the Heritage Foundation proposal will allow seniors to apply a defined government contribution towards the health care plan of their choice, just as congressional and federal retirees do today in the popular Federal Employees Health Benefits Program (FEHBP). They can stay in current Medicare, if that's what they want to do. This is a good political measure. Obviously, no Member of Congress wants to go home and say, "I'm taking away your Medicare." A lot of folks have grown accustomed to it, and anyway, we don't want to take it away.

But for Americans about to retire, or those who perhaps are not happy with the current Medicare system, we are now offering choices. Heritage has prepared a paper detailing the specifics of this Medicare proposal.[6] We hope that this concept will go far in defining the debate. From our conversations with the Speaker's office, the Majority Leader's office, and other members of the committees of jurisdiction, this basic concept of using the FEHBP as a model for Medicare reform is being very well received.

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4 For an overview of the potential payroll tax increases in Medicare, see Stuart M. Butler, "The High Cost of Not Reforming Medicare," Heritage Foundation *F.Y.I.* No. 56, May 4, 1995.

5 For an excellent account of the politics surrounding the passage of the Medicare Catastrophic Coverage Act of 1988, see Robert E. Moffit, "The Last Time Congress Reformed Health Care: A Lawmaker's Guide to the Medicare Catastrophic Debacle," Heritage Foundation *Backgrounder* No. 996, August 4, 1994.

6 See Stuart M. Butler, Robert E. Moffit, and John C. Liu, "What to Do About Medicare," Heritage Foundation *Backgrounder* No. 1038, June 26, 1995.

Indeed, one of the Medicare proposals of the House Budget Committee, unveiled at a conference not too long ago in Virginia, was inspired by the Heritage Foundation model. Another one is a variation of this, offered by Senator Judd Gregg of New Hampshire. It's still a consumer choice proposal, but he has a stronger emphasis on managed care.

Of special interest to physicians is that the American Medical Association has gone on record as supporting a Medicare voucher. Heritage has been working with the AMA, outlining common ground between their voucher proposal and our Medicare reform proposal.

This is a national debate that we can win. This Congress has promised the American people it would hold back spending, cut back government, and give more choices and freedom to individuals. The average American is not stupid. He can make his own decisions. If active and retired Congressmen and Senators can choose their own health plan from among a variety of options, why can't their constituents? If it's good enough for Ted Kennedy, if it's good enough for Al Gore, then it's good enough for the rest of us.