

THE U.S. ECONOMY AND HEALTH CARE:

Implications for Health Reform

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FAMILIES USA ANNUAL CONFERENCE


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OUTLINE OF PRESENTATION

**What's been
happening to
our
economy?
And what will
happen?**



**Economic
trends in
American
Health Care**



**Prospect
for
Health
Reform**

THE U.S. ECONOMY AND HEALTH CARE:

Implications for Health Reform

I. THE MACRO-ECONOMIC ENVIRONMENT

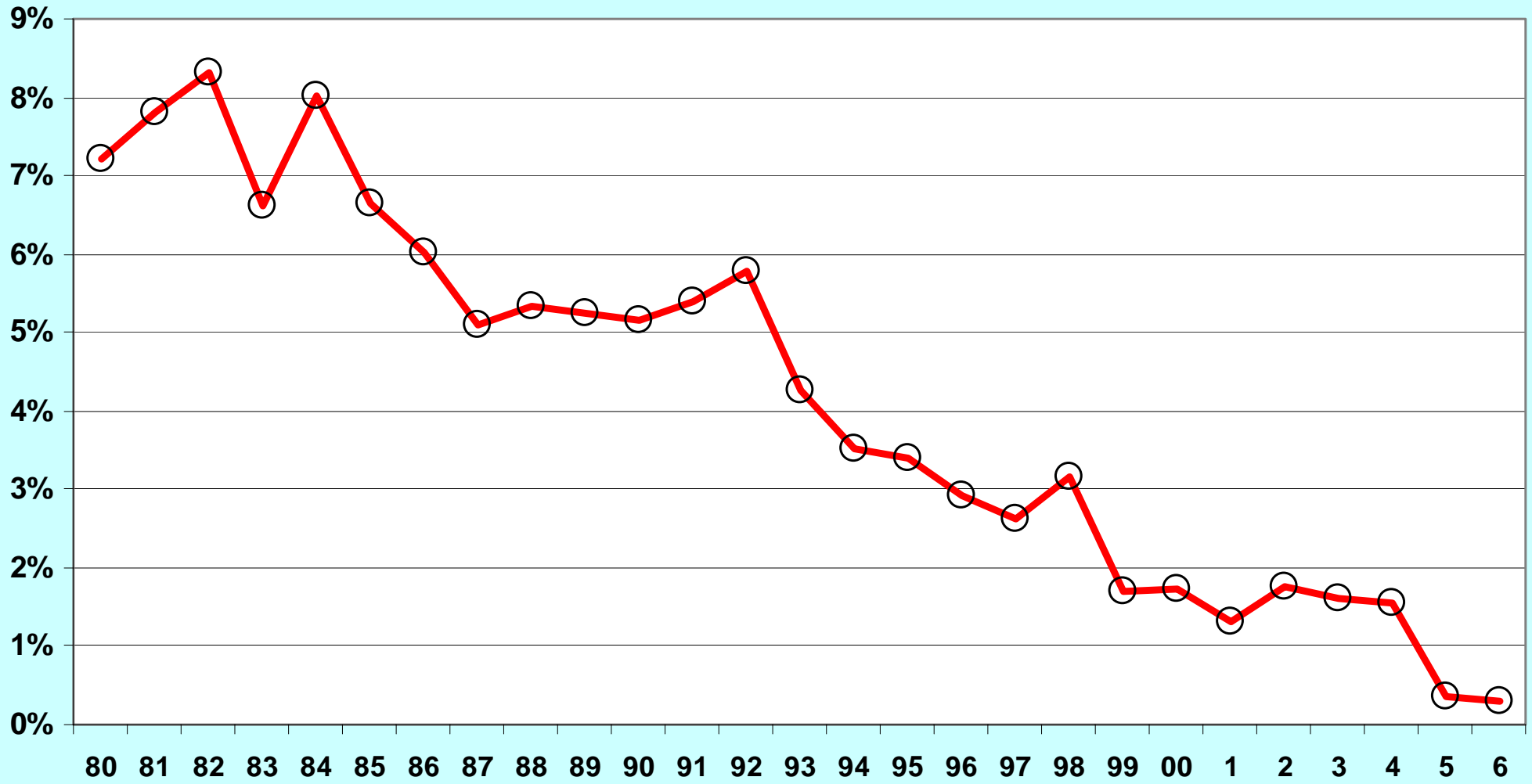
A. What happened to our economy, the pride of
The Wall Street Journal ?

**Consumers
maxed out on
credit**



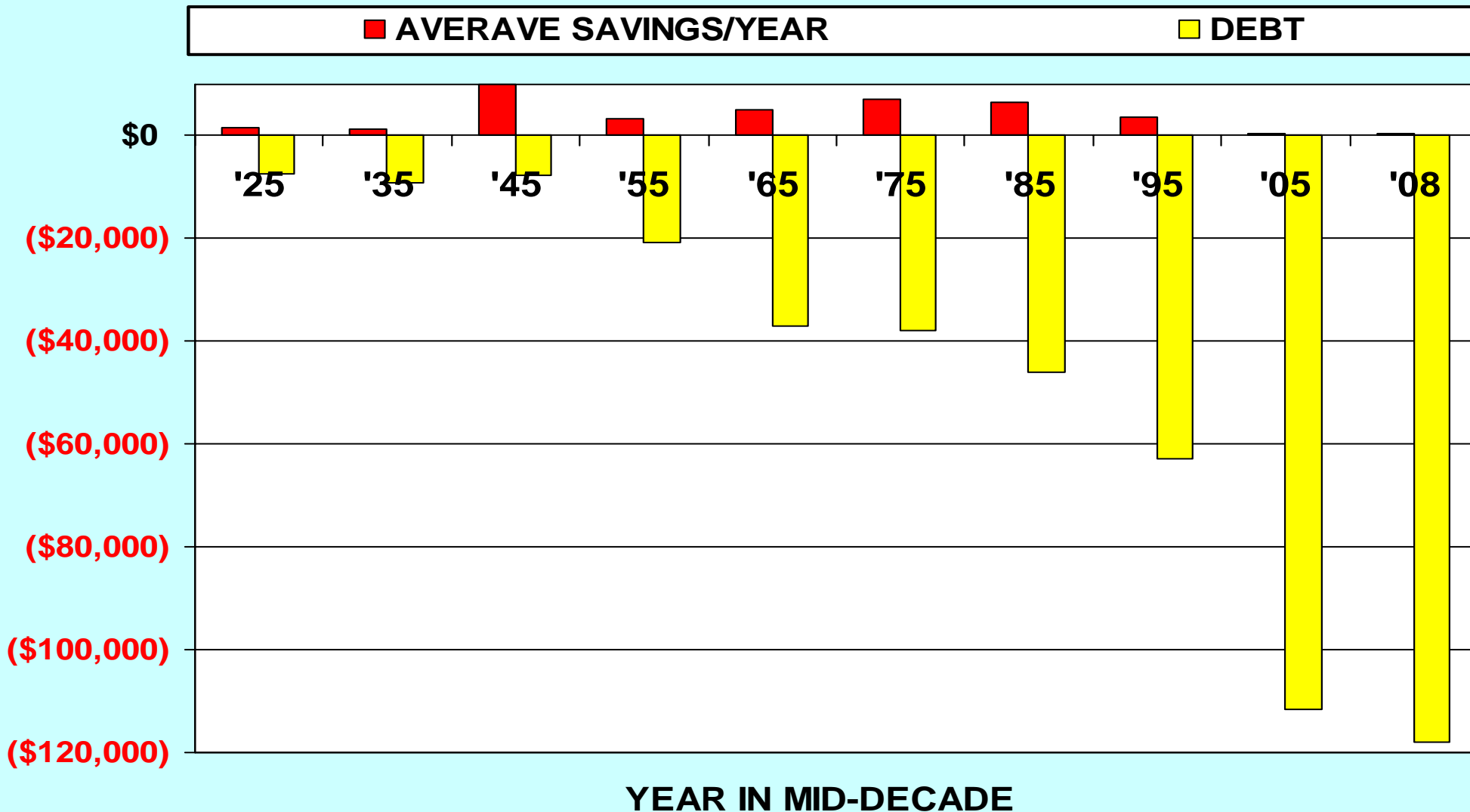
The Economy

PRIVATE PERSONAL (HOUSEHOLD) SAVINGS AS A PERCENTAGE OF GDP, NET OF DEPRECIATION ALLOWANCE



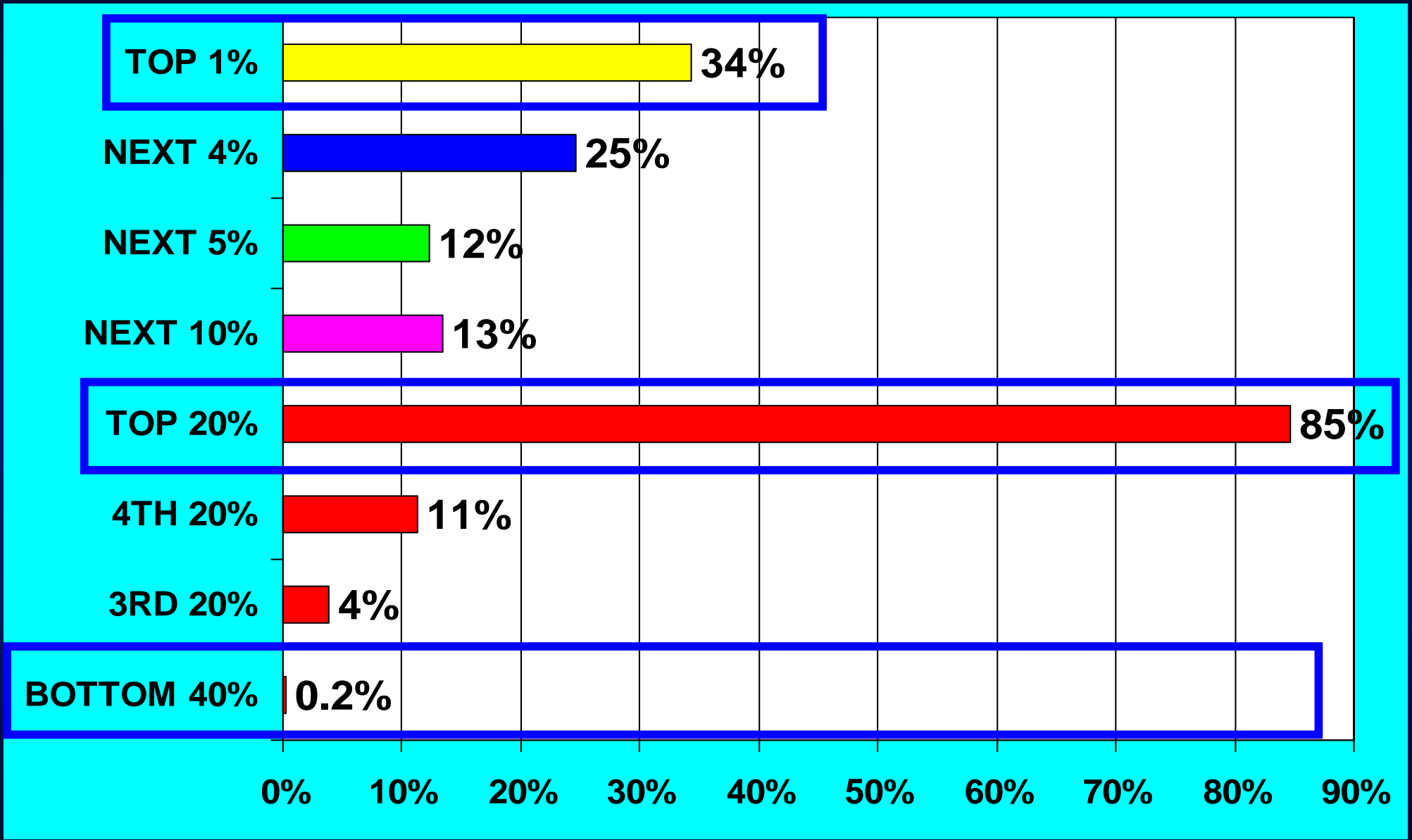
SOURCE: Economic Report of the President 2008, Table B-1 AND B-32.

AVERAGE SAVINGS PER YEAR PER HOUSEHOLD AND AVERAGE DEBT PER HOUSEHOLD



SOURCE: The New York Times, <http://www.nytimes.com/interactive/2008/07/20/business/20debt-trap.html>

FRACTION OF TOTAL WEALTH (NET WORTH) HELD BY INCOME GROUP



SOURCE: Edward N. Wolff, Recent Trends in Household Wealth and Income (May 2007)

Consumers
maxed out on
credit

A banking
sector in deep
do-do

Could this
happen in a free
market?

The Economy



How
WORLD BANKERS
Are Destroying
AMERICA



by James Linzey

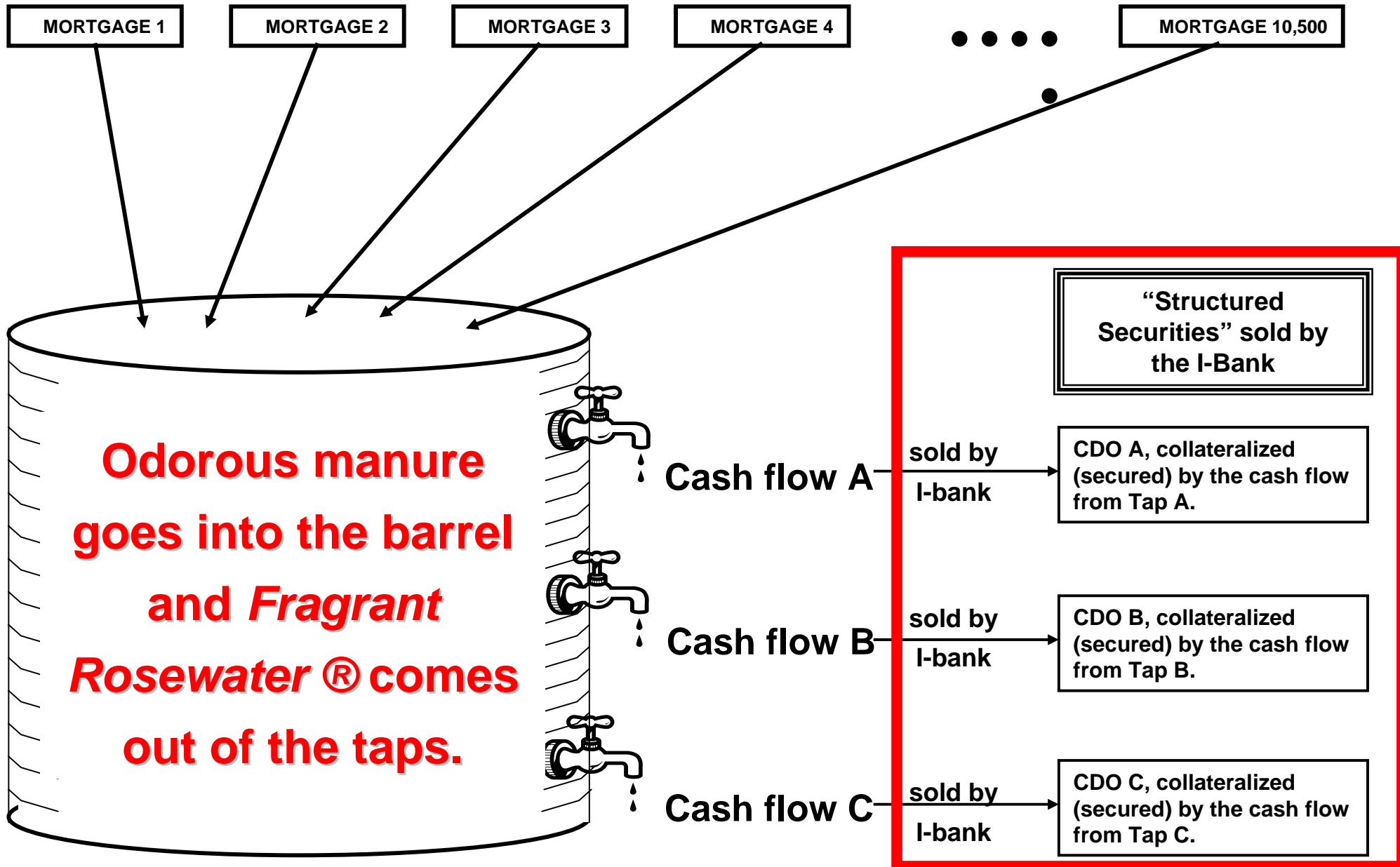
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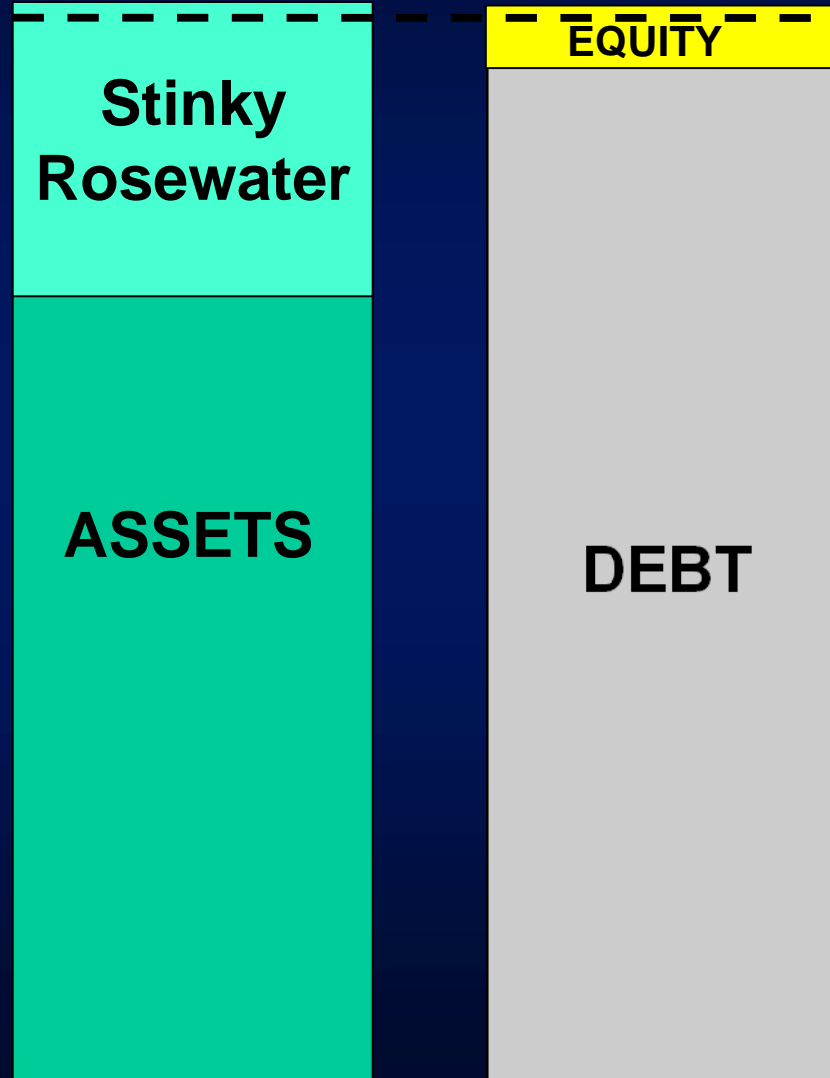
A. What happened to our economy, the pride of *The Wall Street Journal*?

B. Modern banking: morphing manure into perfume

MORPHING MANURE INTO ROSEWATER



In any event, many (most) banks ended up with balance sheets looking something like this:

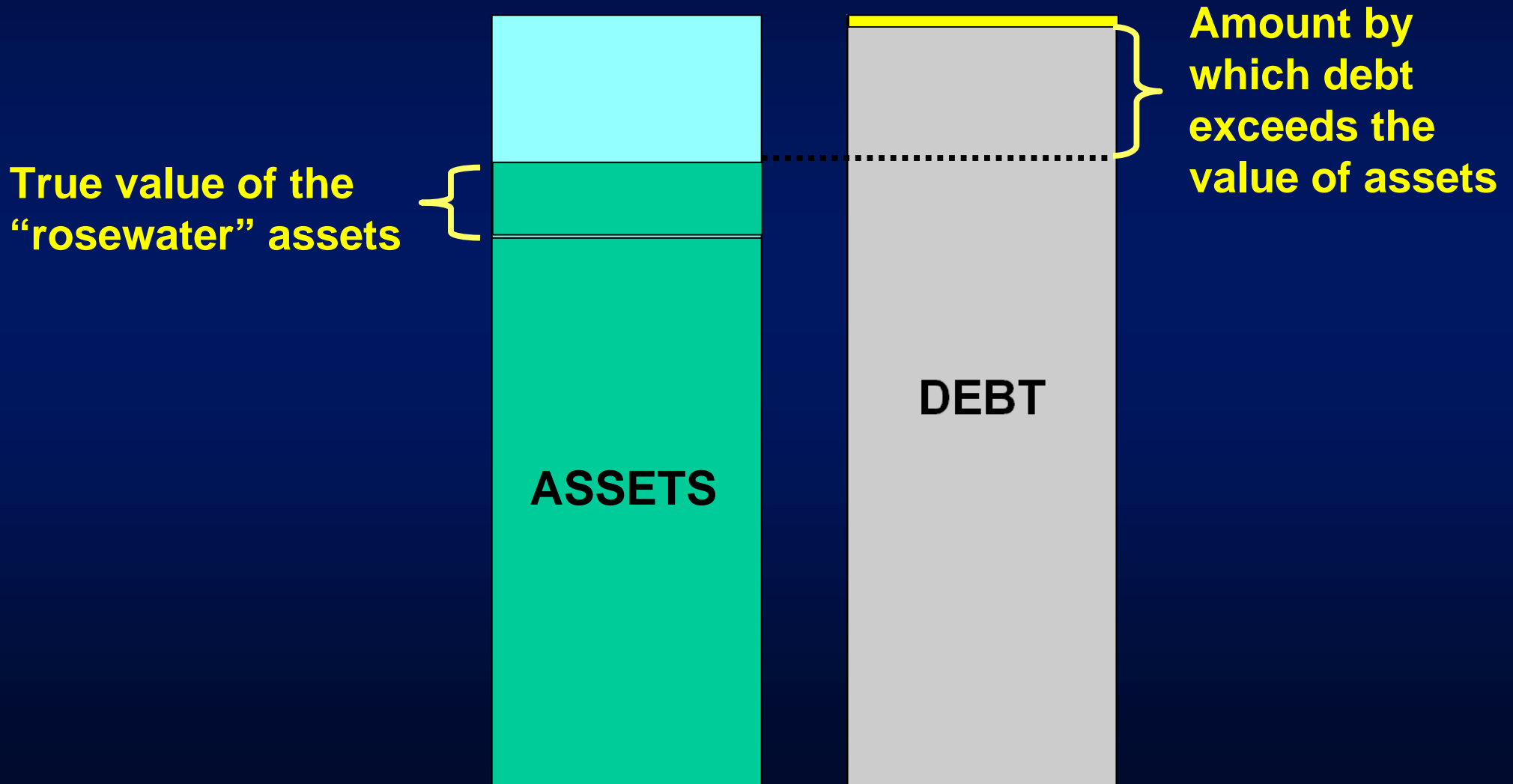


Contributed by the owners.

The typical bank borrowed between \$30 and \$40 for every \$1 of owner's equity to buy assets, including mucho Rosewater.

Alas, the Rosewater-assets morphed back into a stinky mess and fell much in market value.

**TECHNICALLY, MOST OF OUR BANKS APPEAR TO BE INSOLVENT
IN THE SENSE THAT THEY OWE MORE DEBT THAN THE TOTAL
MARKET VALUE OF THEIR ASSETS**





From left, Dawn Spinner Davis, Christine Cameron, Laney Crowell, Alexandra Pennington and Megan Petrus,
Members of *Dating a Banker Anonymous*.

The New York Times

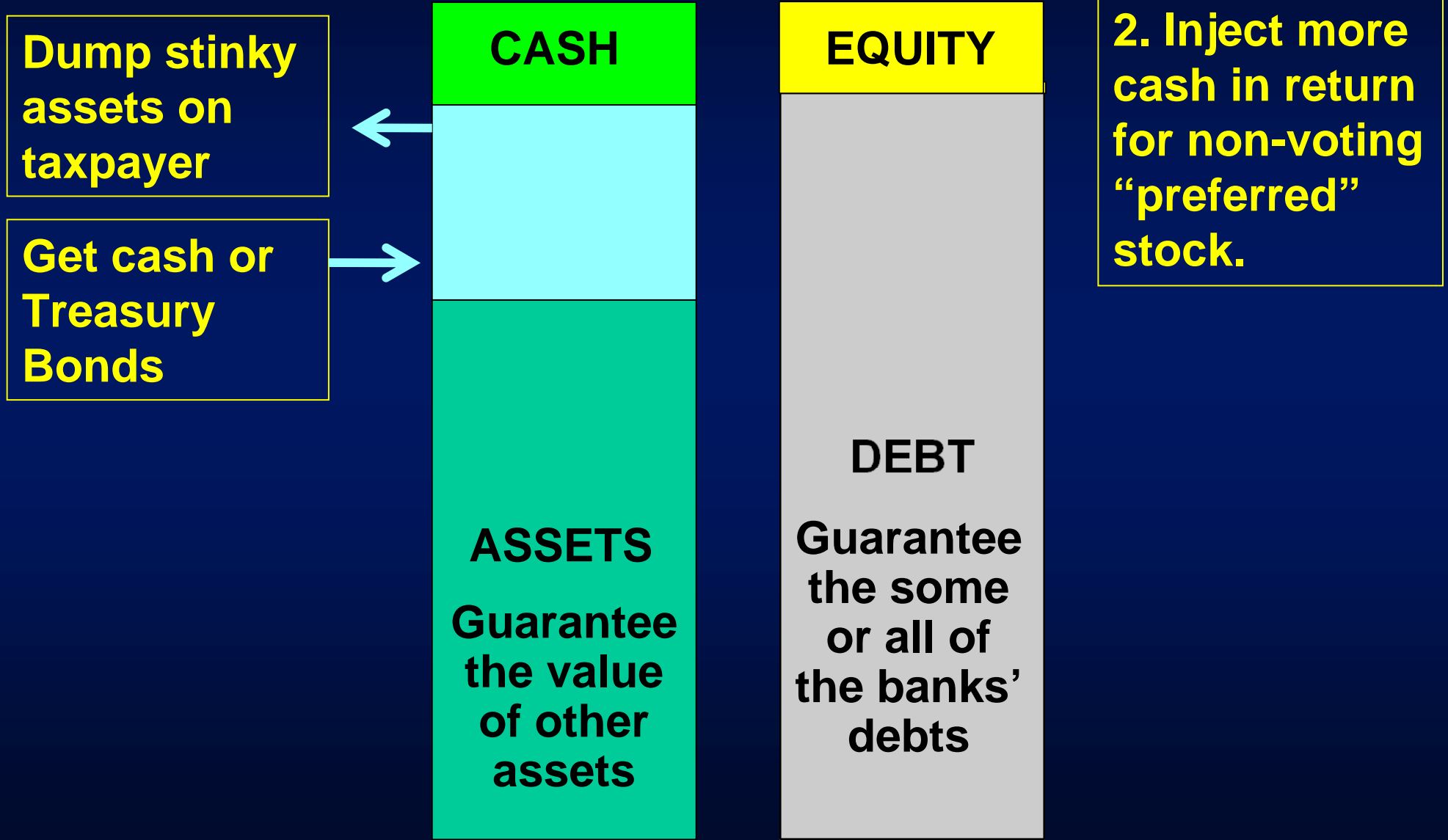
It's the Economy, Girlfriend

By RAVI SOMAIYA

Published: January 27, 2009

... In addition to meeting once or twice weekly for brunch or drinks at a bar or restaurant, the group has a blog, billed as “free from the scrutiny of feminists,” that invites women to join “if your monthly Bergdorf’s allowance has been halved and bottle service has all but disappeared from your life.”

THE ALL-AMERICAN BANK BAILOUT OPERATION™



PROPOSITION

Before long, U.S. taxpayers, courtesy of their government, will be asked to guarantee the value of many major banks' assets and to guarantee the repayment of these banks' debts.

In effect, they will shoulder all of the risks normally born by the banks' shareholders (and more, because shareholders can walk away from debt through bankruptcy).

Why then not nationalize the banks outright, to give taxpayers the voting rights and Board seats normally accorded to shareholders?

Once the banks are healthy again, taxpayers can resell the common stock they own gradually back into the private sector.

The formerly government-owned Volkswagen A.G. and Lufthansa A.G. were privatized that way. It works.

After all, it is hard to imagine that any government-appointed Boards and managers of these banks could do worse than their current Boards and managers already have done.

Unfortunately, folks in Washington still believe that the nationalization is a horror, because the private sector is assumed to be more efficient than government – even the incompetent folks who have been running those banks smack into the ground..

Presumably, if to conquer a hostile city one had to choose between, say, either

- 1. the U.S. Marine Corps -- a purely socialist, government run combat outfit, or**
- 2. a private enterprise -- such as Halliburton, Inc. or Blackwater, Inc.,**

folks on the Hill, in the White House and in Washington think tanks would instinctively opt for Halliburton, Inc. or Blackwater, Inc., “because these private outfits would be more efficient than the government-run U.S. Marine Corps.”

Do you buy that reasoning?

In the end, as noted, we effectively will nationalize the banks in all but name, after first going through the all-American ritual so well described by Sir Winston Churchill when he remarked:

In the long run, Americans will always do the right thing, after exploring all other alternatives.

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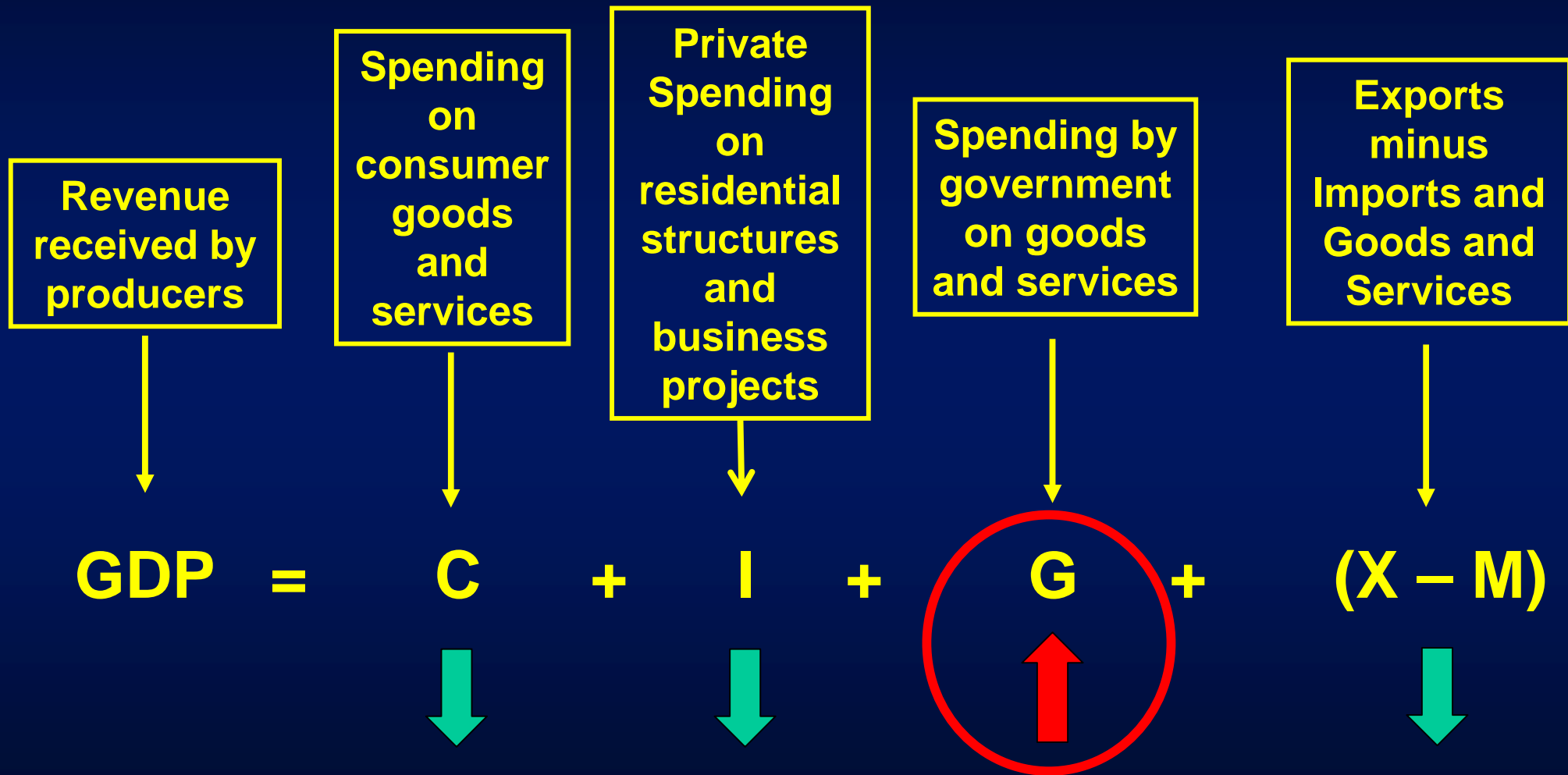
I. THE MACRO-ECONOMIC ENVIRONMENT

A. What happened to our economy, the pride of *The Wall Street Journal* ?

B. What happened to our banking sector?

C. Lord Keynes to the rescue

THE CENTRAL CORE OF KEYNESIAN DEMAND-SIDE STIMULUS



G = gov't spending on operations + gov't spending on investment

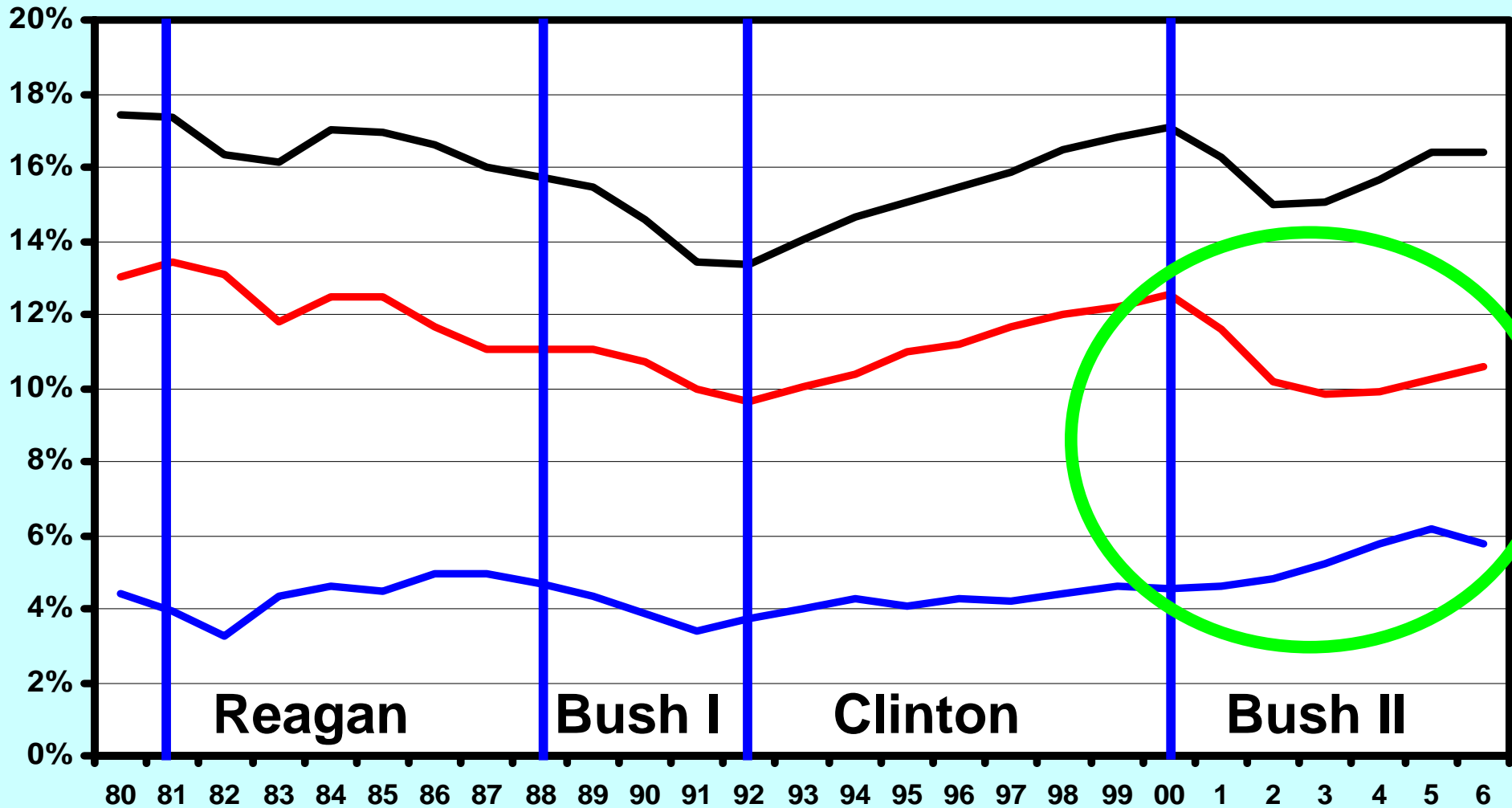
In deep recessions, “Keynesian” demand-side economics (increasing G) works better than tax cuts (to increase C and I) at this particular time when:

- 1. Households might simply use any tax savings to reduce debt or save more to rebuild the wealth they have lost, rather than spend these tax savings.**
- 2. Business firms are unlikely to use any tax savings now to upgrade capacity when they cannot even sell the output from existing capacity.**

The next slide shows how the fraction of GDP devoted to business investment fared after President Clinton’s tax increases and after President George W. Bush steep tax cuts.

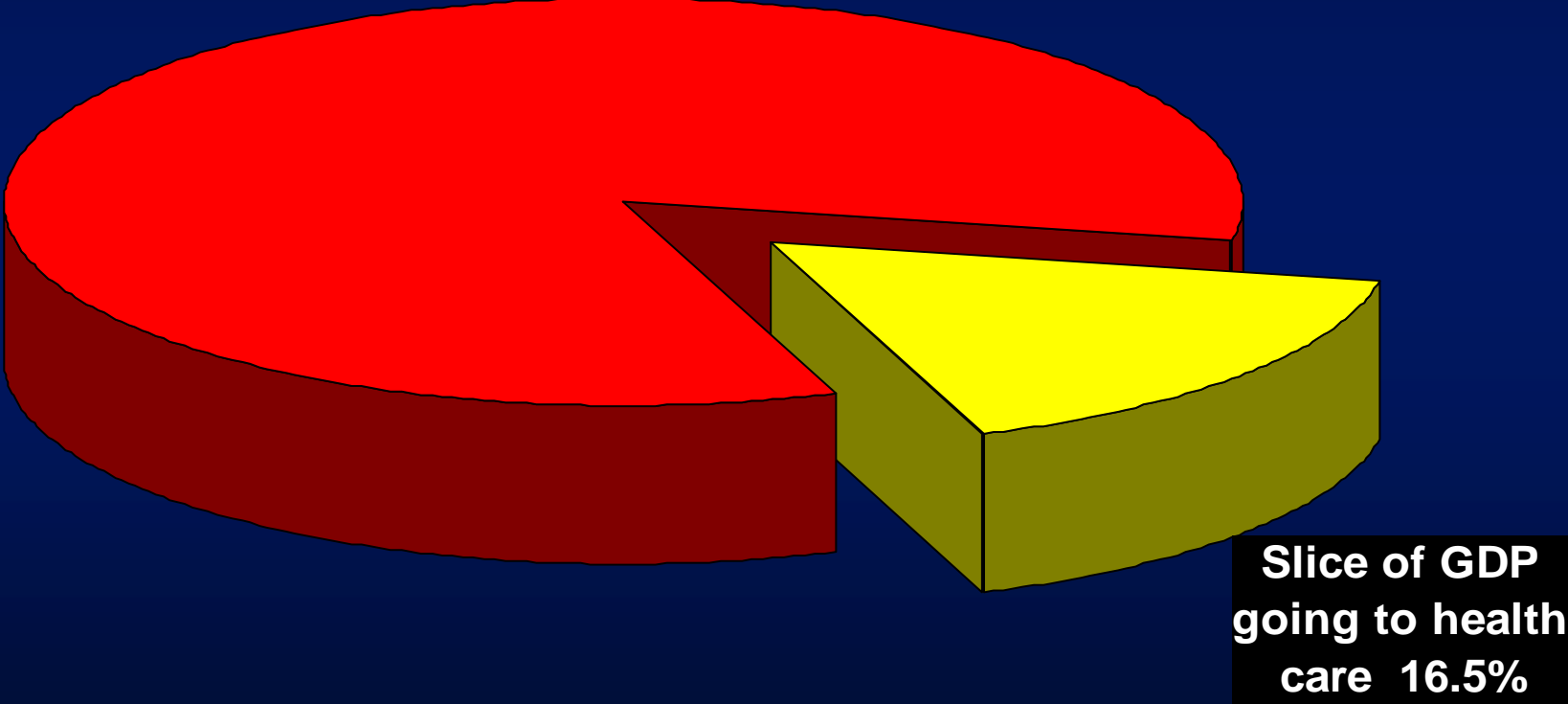
TOTAL PRIVATE INVESTMENT AS PERCENT OF GDP 1980 - 2006

— TOTAL PRIVATE INVESTMENT — NON-RESIDENTIAL — RESIDENTIAL

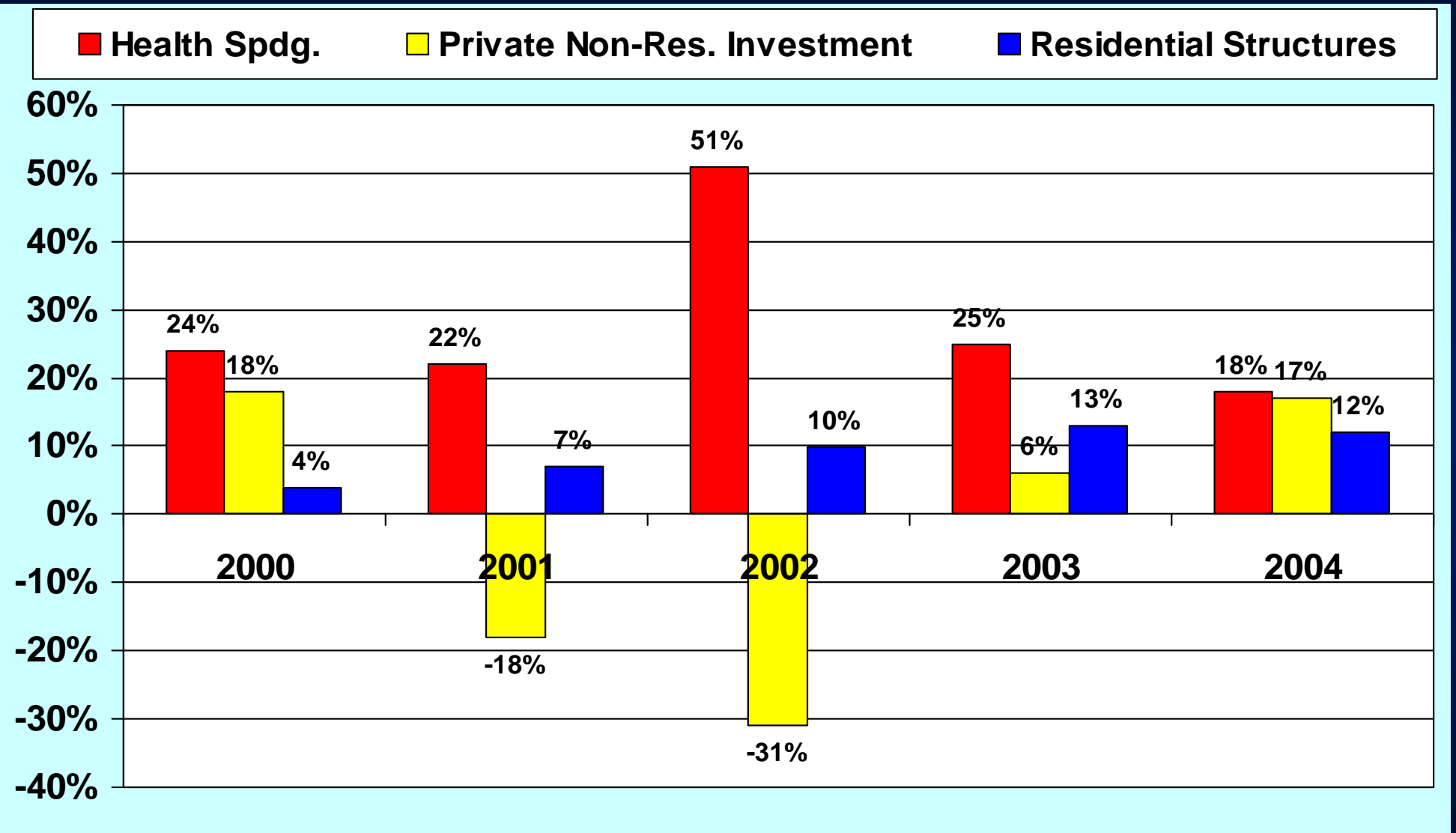


SOURCE: Economic Report of the President 2008, Table B-18.

Health care is part of the GDP and should be part of any stimulus package that increases G, government spending.



FRACTIONS OF GROWTH FROM PRIOR YEAR IN U.S. GDP THAT IS ACCOUNTED FOR BY GROWTH IN U.S. HEALTH SPENDING AND PRIVATE INVESTMENT, 2000-2004



SOURCE: President's Economic Report 2006 and *Health Affairs*, Jan/Feb 2006.

The McGraw-Hill Companies

BusinessWeek

SEPTEMBER 24, 2009

www.businessweek.com

What's Really Propping Up the Economy



Health care
has added
1.7 million
jobs since
2001. The
rest of the
private
sector?
None.

BY MICHAEL
MANDEL
P. 54

Added government spending on health care would be a splendid part of a Keynesian stimulus through

- 1. Spending the additional \$120 billion or so (5% of current health spending) to move to full universal health insurance coverage (or to move at least partially there); and**
- 2. Government spending on a first-rate health-care information infrastructure; and**
- 3. Government spending on R&D aimed at cost-saving medical technology (especially labor-saving technology)**

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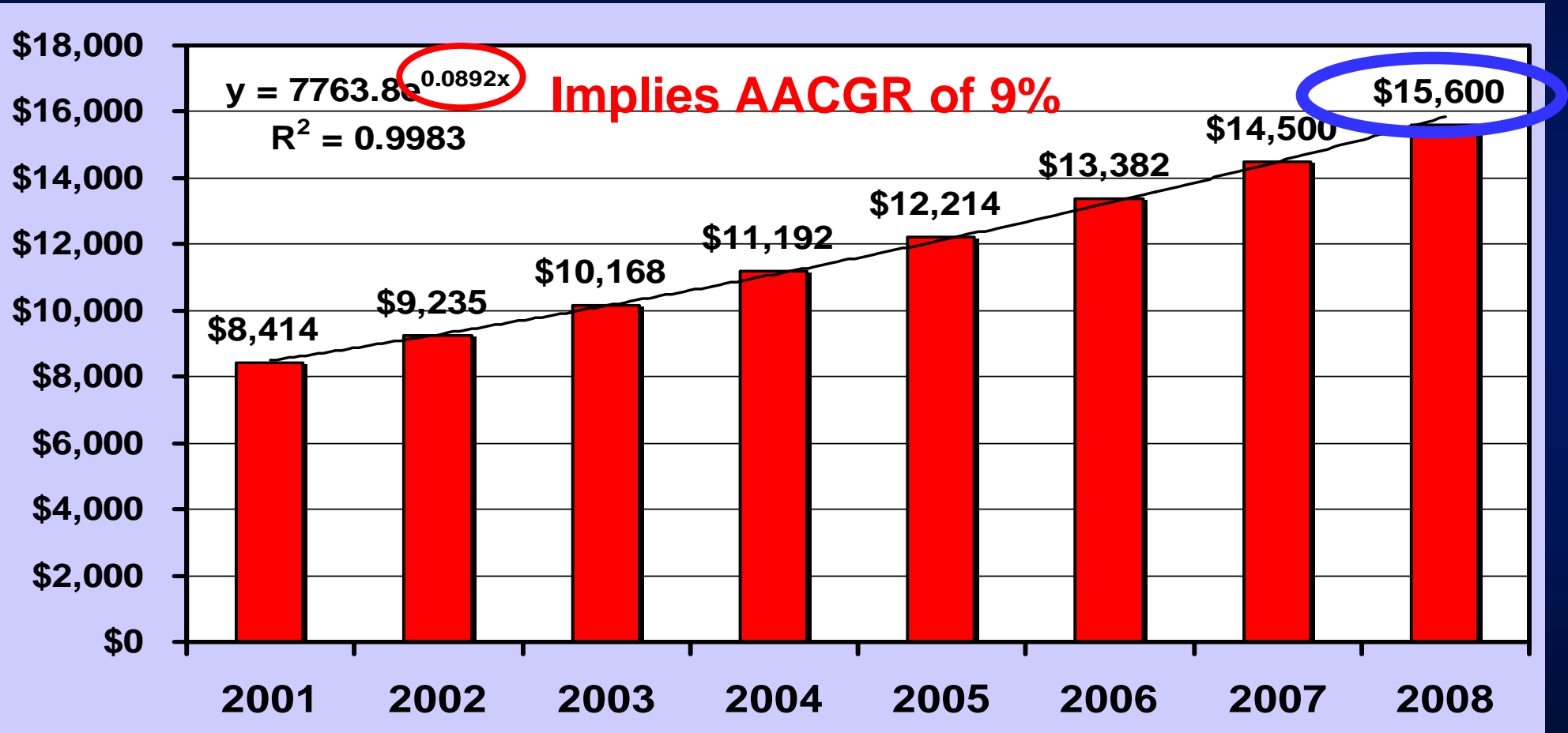
II. ECONOMIC TRENDS IN HEALTH CARE

A. Health spending trends: past and future

MILLIMAN MEDICAL INDEX (MMI)

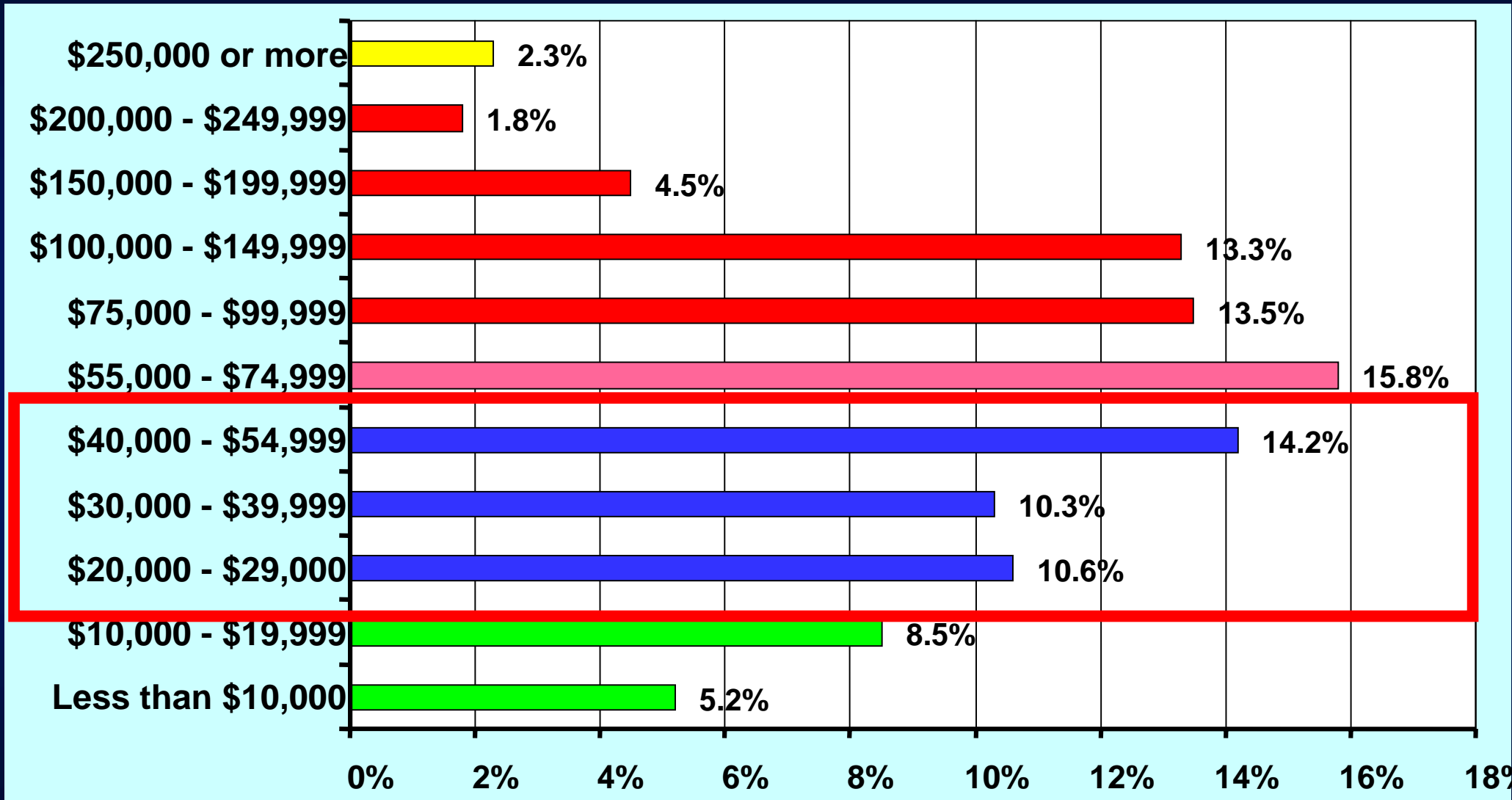
Average Annual Medical Cost for a Family of Four

(Employers' and Employees' Premium + Out-of-Pocket Costs)



DISTRIBUTION OF FAMILY MONEY INCOME, UNITED STATES, 2005

Average income \$73,304 (Median about \$56,000)

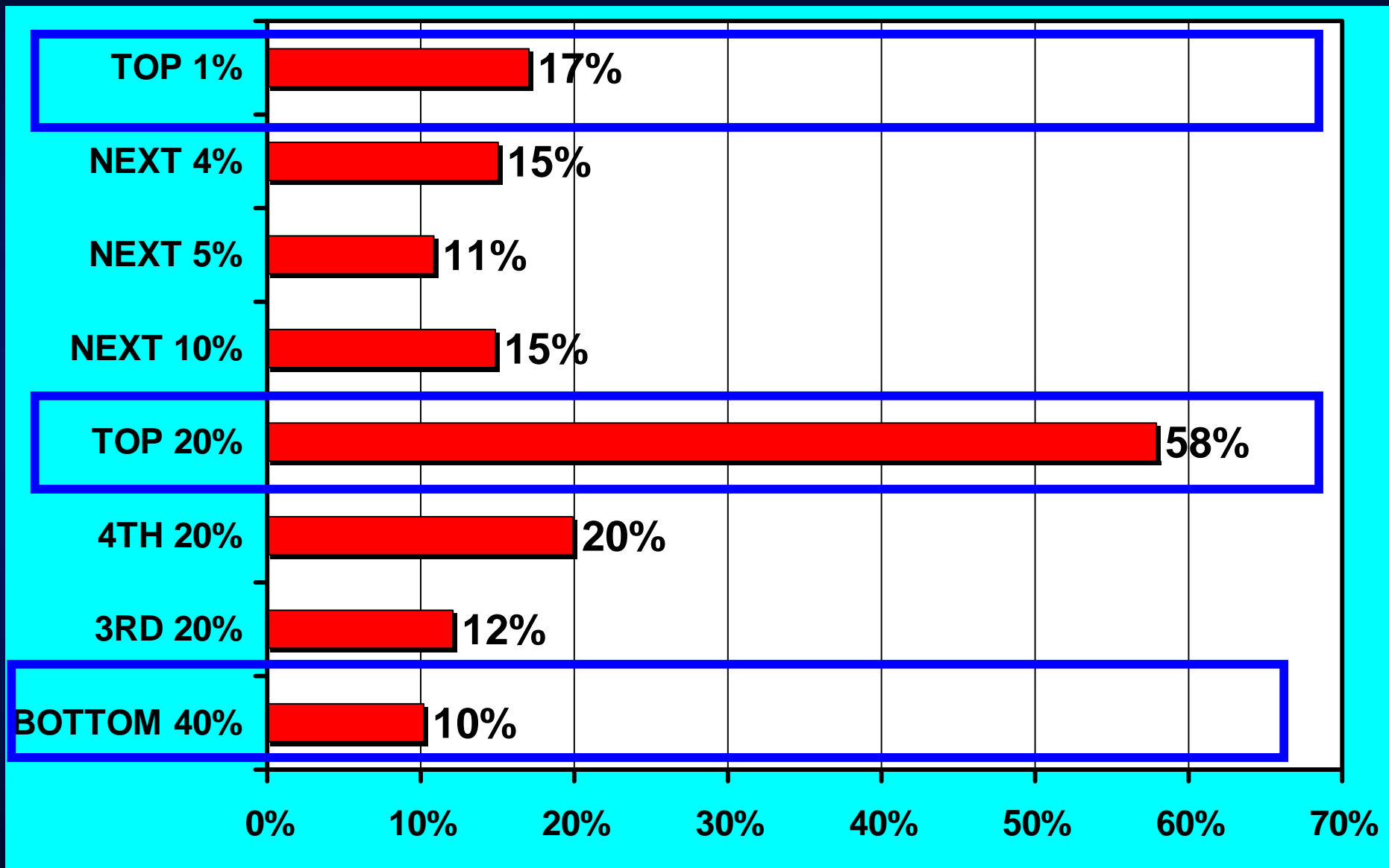


SOURCE: U.S. Bureau of the Census, 2006 Annual Social and Economic Supplement, Table FIN-07;

http://pubdb3.census.gov/macro/032006/faminc/new/07_000.htm

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FRACTION OF TOTAL U.S. NATIONAL INCOME RECEIVED BY INCOME GROUP



SOURCE: Edward N. Wolff, Recent Trends in Household Wealth and Income (May 2007)

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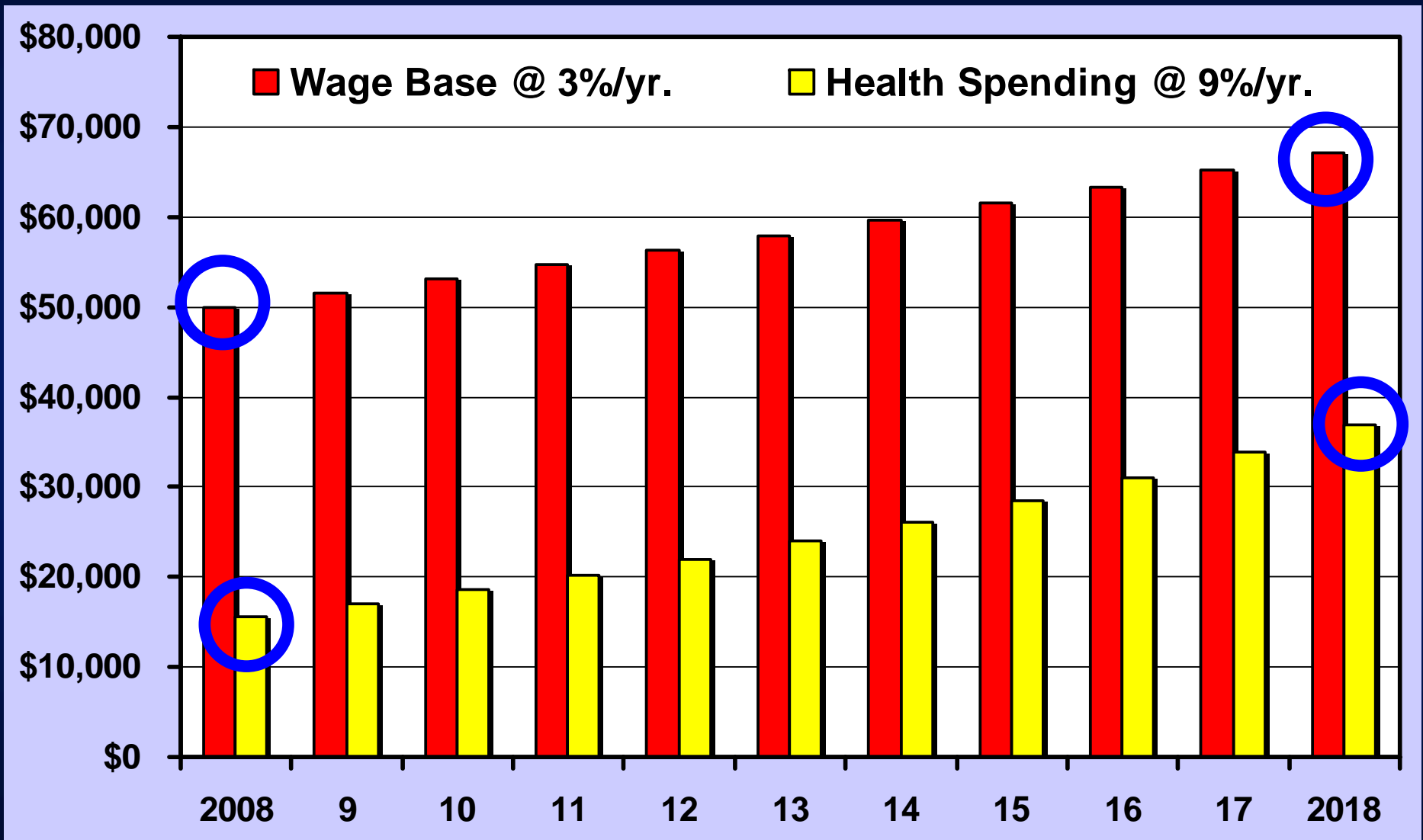
I. THE MACRO-ECONOMIC ENVIRONMENT

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A. Health spending trends: past and future

B. Pricing the lower-middle class out of health care

GROWTH IN HEALTH INSURANCE PREMIUM RELATIVE TO WAGE BASE, 2008 - 2017



GROWTH IN HEALTH INSURANCE PREMIUM RELATIVE TO WAGE BASE, 2008 - 2017

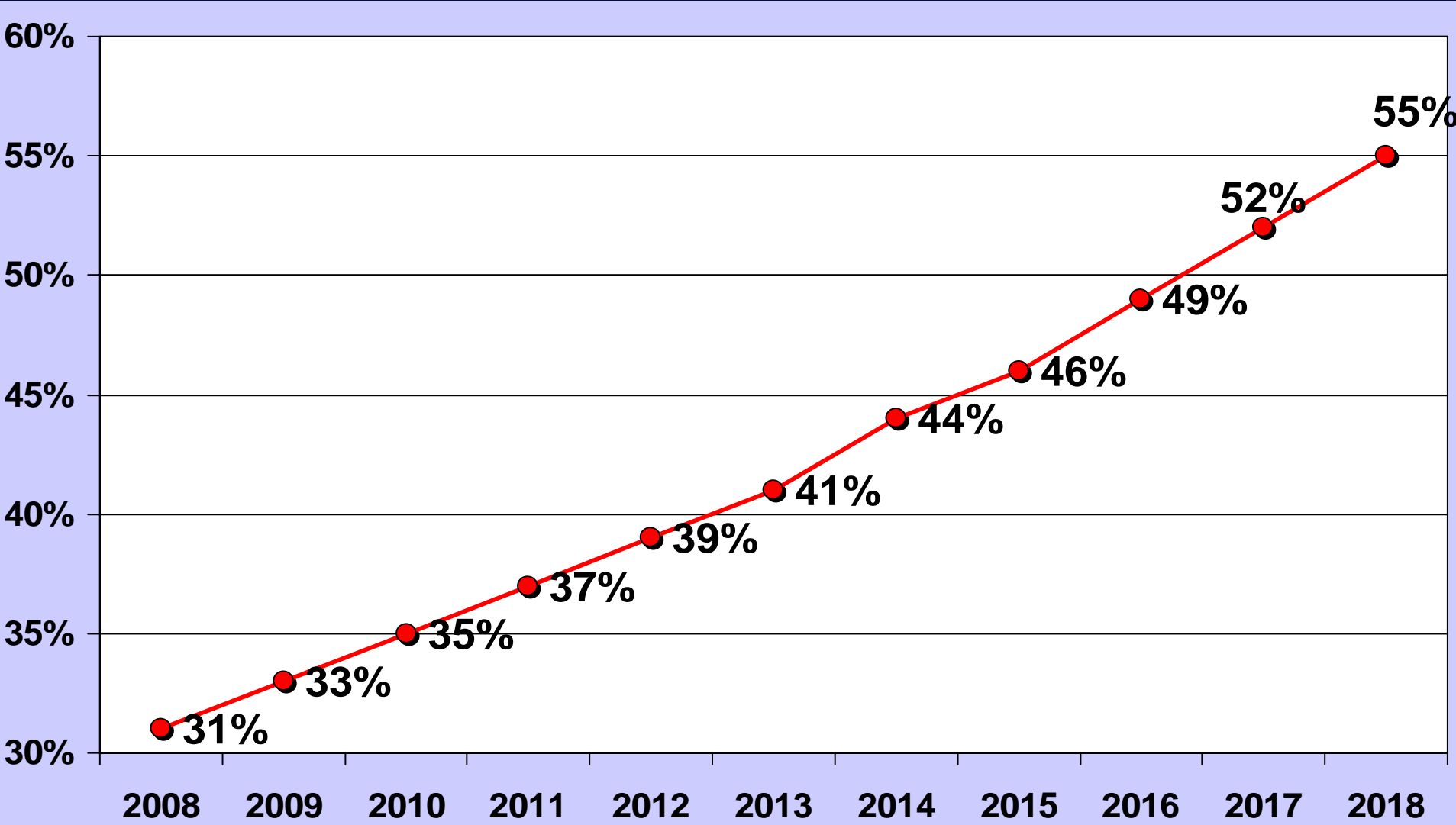
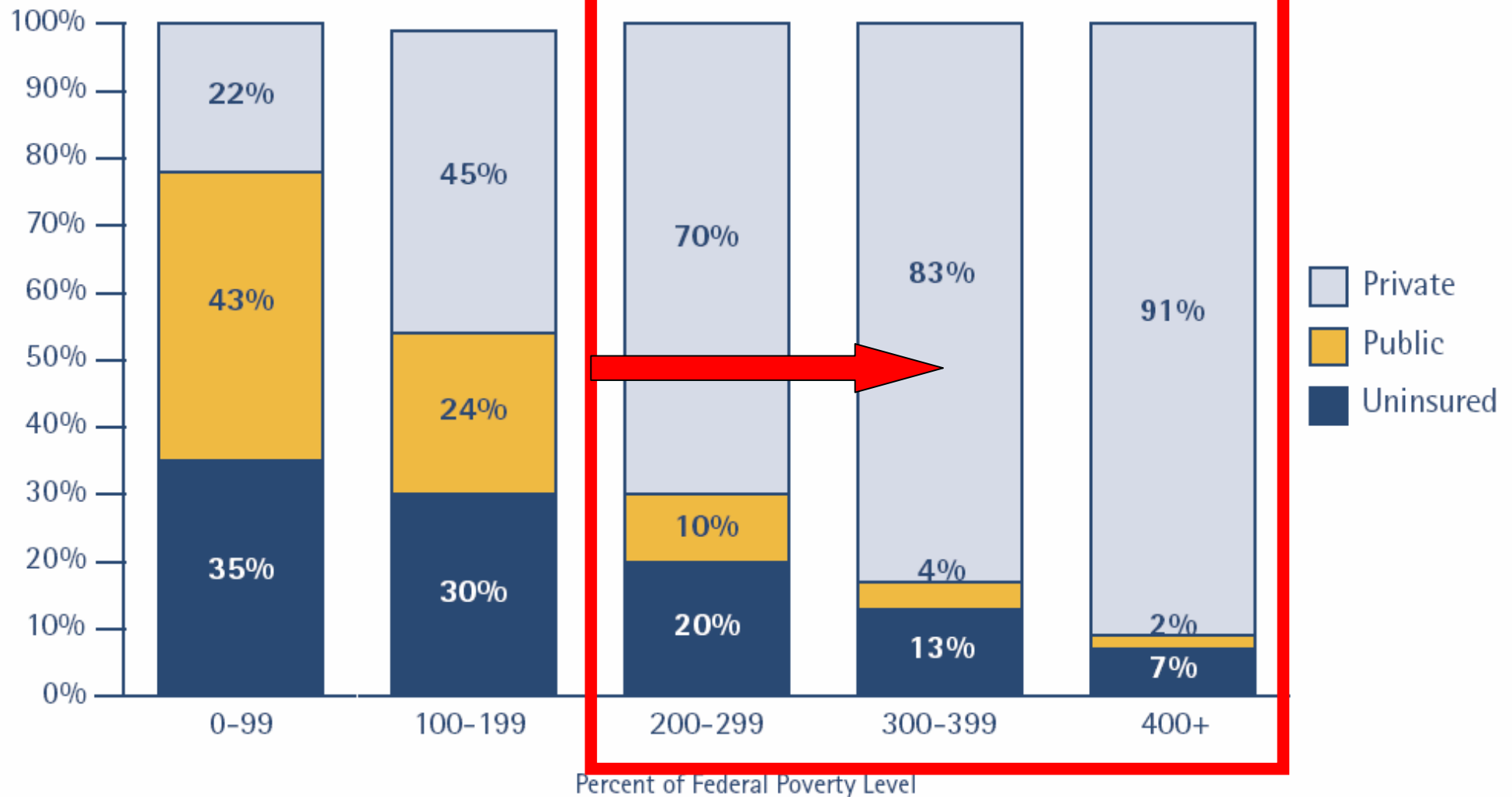


FIGURE 3: COVERAGE TYPE BY FEDERAL POVERTY LEVEL 2006



Note: Persons reporting both private and public coverage during 2006 are classified as private. Percents may not sum to 100 percent due to rounding.
Source: NIHCM Foundation analysis of data from the March 2007 Current Population Survey.

SOURCE: National Institute for Health Care Management, *Issue Brief* (April 2008)

TAKE-HOME POINT

Sometime during the forthcoming decade, Americans will have to decide

1. whether they are willing to vote for a sizeable tax-and-transfer program in health care (~ \$125 b/year) to help finance health care for families in the bottom half of the income distribution

or

2. formally embrace rationing health care by income class, perhaps through reference pricing all around.

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II. ECONOMIC TRENDS IN HEALTH CARE

III. PRESIDENT OBAMA TO THE RESCUE ?

A. President Obama's vision for health reform

PRESIDENT OBAMA'S REFORM PLAN

- 1. Would create a new National Health Exchange (akin to the FEHB) through which small businesses, and individuals or families not covered by public- or employment-based insurance, can purchase health insurance.**
- 2. Would create a new public health insurance plan for such businesses or individuals and families that would offer comprehensive benefits like those under the FEHB plans. This is the truly revolutionary piece of his plan.**
- 3. Would grant income-related subsidies low-income individuals and families toward the purchase of health insurance, which would be mandated only for children.**

PRESIDENT OBAMA'S REFORM PLAN

- 4. Would expand Medicaid and CHIP.**
- 5. Would partially socialize catastrophically high health care costs in the employment based system, which would be retained.**
- 6. Would provide small business refundable tax-credits for up to 50% of the premiums paid on behalf of employees.**
- 7. Would mandate “guaranteed issue” and “community-rated premiums” on private insurers.**

PRESIDENT OBAMA'S REFORM PLAN

- 8. Like all other candidates in the presidential election, President Obama had proposed numerous measures to control health spending and to increase the value Americans get for their health spending, notably among them:**
 - a) Sizeable investments of public funds in a modern health-information infrastructure, and**
 - b) Government-funded, formal cost-effectiveness analysis of existing medical procedures and new medical technology.**

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A. President Obama's vision for health reform

B. How much would universal coverage cost?

2008 HEALTH SPENDING PER CAPITA OF PRIVATELY INSURED AND UNINSURED AMERICANS

FULL-YEAR
UNINSURED

\$1,686 = 43% of Privately Insured

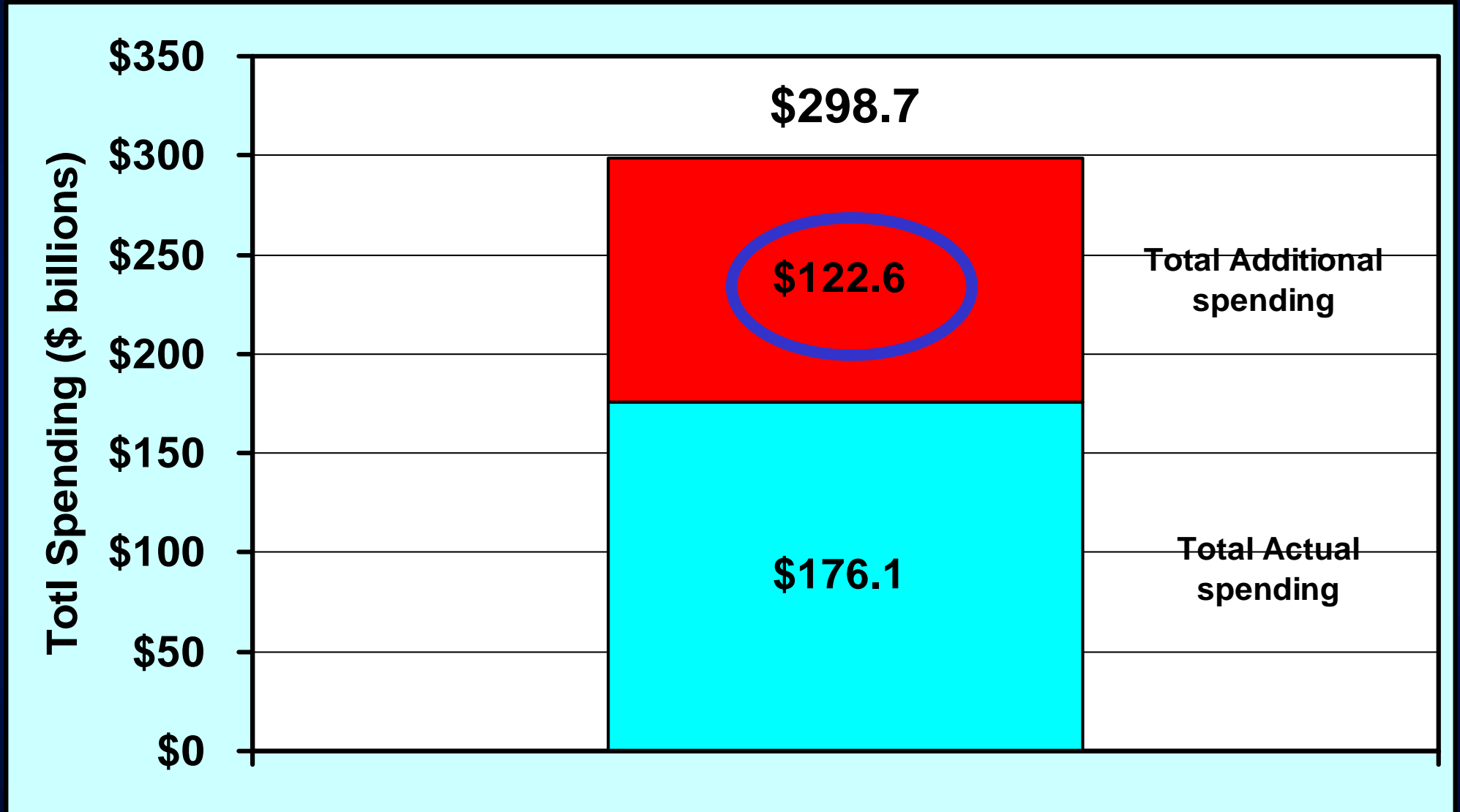
FULL-YEAR
PRIVATELY
INSURED

\$3,915

\$0 \$500 \$1,000 \$1,500 \$2,000 \$2,500 \$3,000 \$3,500 \$4,000 \$4,500

SOURCE: Jack Hadley et al., "Covering the Uninsured in 2008: Current Costs, Sources of Payment, and Incremental Costs," *HEALTH AFFAIRS WebExclusive* (25 August, 2008): Exhibit 1.

SIMULATED INCREASES IN TOTAL 2008 HEALTH SPENDING BY THE UNINSURED IF THEY WERE FULLY INSURED



SOURCE: Jack Hadley et al., "Covering the Uninsured in 2008: Current Costs, Sources of Payment, and Incremental Costs," *HEALTH AFFAIRS WebExclusive* (25 August, 2008): Exhibit 5.

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III. PRESIDENT OBAMA TO THE RESCUE

IV. SELLING THE IDEA OF UNIVERSAL COVERAGE

**Before focusing on the nuts and bolts of health reform
– a task best left to the experts – Americans should ask
themselves the following questions:**

What kind of society do you prefer for yourself and your children?

- ❑ Is it a society in which a family loses the benefits of health insurance just at the unfortunate time when the family's bread-winner, through no fault of his or her own, loses the job that has fed the family?**
- ❑ Is it a society in which your offspring, who may be starting their work-life in a small business firm -- perhaps one of their own creation -- cannot even get health insurance because the insurance industry does not serve small business firms well?**

- Is it a society that views getting sick pretty much as the same as having a poor driving record, that is, that views illness as basically the sick person's own fault, rather than a matter mainly of genetic inheritance, or an unhealthy workplace, or unhealthy living conditions, or just plain bad luck all around?
- Is it a society in families are let go broke when one of its members is stricken by serious illness?
- Is it a society that rations health care by income class?

❑ **Finally, is it a society that treats children as:**

- a) a precious natural resource whose current and future health status and education literally define the future of our country (much more so than does the net financial status of the Social Security system), or**
- b) the human analogues of pets whose health care and education should be the responsibility primarily of the parents who “own” them. (I do not mean to be flip or disrespectful here. Americans do love their animal pets and protect them, like children, through many public laws. But caring for pets is primarily the financial responsibility of those who have them. Should that be true of children also?)**

These alternative perspectives do shape one’s views on the financing of health insurance and health care for children.

AN BOLD ALTERNATIVE PROPOSAL TO CHIP

If, like most other industrialized societies do, one views children as a precious national resource that will drive the nation's economic future, then one might wish to countenance the following scheme for guaranteeing them health insurance and proper health care:

- 1. Automatically enrol all children living in America and likely to grow to adulthood here in the new public health insurance plan proposed by President Obama, with full government financing of the premium for all children.**
- 2. Issue a tax-financed, risk-adjusted, actuarially fair voucher to parents who wish to enroll their children in a private health-insurance plan instead, but make adequate health insurance for children mandatory.**
- 3. Extend this coverage until age 22 or at least the point in time at which the child legally becomes an adult.**

In the difficult coming decade, Americans may learn at long last what citizens of most other nations have come to appreciate long ago, namely that

- 1. as great as capitalism within a free market economy can be at its best in meeting the needs and cravings of citizens, that system cannot possibly satisfy all of the cravings of a civilized society.**
- 2. For example, a private firm such as General Motors cannot offer a robust Social Security system that gives people the peace of mind they crave.**

Let us hope that Americans – even Joe the Plumber – will learn studiously in the decade ahead.

THE END

