News from Senator

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REMARKS OF SENATOR BOB DOLE

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I certainly appreciate your kind invitation to visit with you this morning to share my thoughts on the state of the economy, and the implications of the current economic situation on our health care financing programs.

As a nation, it is in our best interest to promote the health of our citizens. I know that the members of this distinguished organization have worked hard in their respective communities to provide quality health care services. However, even in this country of massive resources there are limits to how much we can afford to spend in any one sector. Our current fiscal crisis is forcing us to reexamine our health delivery system. The problem becomes even more pressing when we look down the road to a nation with increasing numbers of elderly citizens, and a medicare trust fund threatened with exhaustion less than a decade from now. Here as in the Social Security System, Americans confront painful choices.

THE ECONOMY

But before turning to health issues I would like to spend a few moments discussing the overall economic picture.

Contrary to popular belief, the economic news is not all gloom and doom.

Think back just one year. The inflation rate for all of 1980 was over 12%. In 1981, it came in under 9%. This year we expect it to be down to 7%. One year ago, interest rates were topping out at 21 1/2%. Today, the prime stands at 15 3/4% - and a lot of economists expect it to continue downward this year. In 1980, federal expenditures were rising at an annual rate of 18%. Today, that number has been cut by two thirds. One year ago, Americans were saving less per capita than the residents of any other major industrial power. Today, thanks to tax cuts, all savers certificates and retirement accounts, the savings rate is up sharply - and with it, a powerful weapon to combat interest rates and unemployment is being sharpened.

However, not all the news is good - as if you needed me to tell you. The highest interest rates since the civil war have tumbled us into a recession - and the unemployment rate may well exceed 9% before spring. That is, as President Reagan has said, a very real and human tragedy. But at least this time we find ourselves in a recession with the tools already in place to make it relatively brief in duration. This time, instead of cranking up a big Federal jobs program that barely gets put into place before the recession ends - we can fight recession with targeted tax reductions.

Now there has been much criticism of the Reagan economic program. Criticism - but no alternative.

As President Reagan noted in his speech to the nation last Tuesday evening, you don't reverse decades of high-tax, high-spending policies overnight. But you don't let that serve as an excuse for inaction, either. We've come a long way in less than twelve months. But no one ever predicted that the first round of budget cuts would be enough - nor that we could cut taxes over five years by $750 billion without making additional reductions in Federal spending.

The immediate questions are: How do we bring down the deficit in fiscal years 83 and 84? How do we sustain the downward trend of interest rates? How do we take maximum advantage of tax cuts and other incentives to invest? And how do we put an end - permanently - to the roller-coaster ride of inflation?

TAXES

The tax cuts are here to stay - not only because they will hasten the end of the present recession but because they will help to prevent future recessions. Thanks largely to the stimulus they offer, the Administration expects the economy to grow from $2.8 trillion to $4.8 trillion by 1986.

If those projections fall short, and we have slower economic growth than we expect, then we should reexamine our options. But it would be foolish now to lock ourselves into a slow-growth pattern: either by excessive taxation or by allowing the Federal Budget to take off once again.

There are a series of proposals already suggested by the Administration, dealing with the underground economy, long-term contracts, industrial development bonds, insurance company taxation, energy credits and corporate tax payments. An estimated $24 billion worth of loopholes in the existing tax laws are sure to come under scrutiny.

The Finance Committee will also examine ways to strengthen the corporate and individual minimum tax. Companies with substantial earnings and individuals with high incomes should not be permitted to escape all taxes. Our review of a minimum tax is the result of a desire to insure that there is equity in our tax system.

BUDGET CUTS

In addition to these changes on the revenue side, the President and his advisors have stressed the absolute necessity of discipline on the spending side as well. Last year, after considerable howling and rage, the Congress managed to cut $39 billion from the Fiscal Year 1982 budget. Or rather, I should say, we cut $39 billion from planned increases over the previous year's spending. This year, we confront a possible hundred billion dollar deficit. Because we're in a recession, it will be doubly difficult to raise revenue or cut spending. But we must, and in doing so we must again take a good hard look at entitlement programs.

A quarter century ago, entitlements formed 22% of the Federal Budget. Today, they're 48%. One department alone, one all of you are very familiar with, Health and Human Services, spends more money than every country in the world, save the U.S. itself and the Soviet Union.

It is safe to say that Federal health programs - which make up about one seventh of all nonmilitary spending - will continue to be a highly visible target for reductions. To be perfectly frank, skepticism is in abundant supply on Capitol Hill as to whether or not the health care industry itself can really moderate its costs. Certainly the voluntary effort for containment has failed to live up to its promise.

The voluntary effort which began in 1977, and worked successfully through 1979 gave those of us fighting the Carter cost containment mandatory controls, a very persuasive argument upon which to build a case.

I, for one, firmly believed that your industry would prove that the government does not need to regulate all markets to assure reasonable and responsible prices. I believed the initiation of the voluntary effort was not solely in response to Carter, but showed honest concern from the industry, and an acknowledgement that you were also responsible in part for finding a solution to the problem of rising costs that faced us.

However as we all know, health care expenditures in 1980 accelerated at a time when the economy as a whole exhibited sluggish growth. The 9.4% share of the GNP taken up by health care expenditures was a dramatic increase from the 8.9 percent share in 1979.

Health care expenditures amounted to $1,067 per person in 1980, making the nations health bill a whopping $247.2 billion. Hospital care accounted for 40.3 percent of this spending.

I understand that in 1980 the hospital industry's cost restraint performance was 5 percentage points above its own voluntary goal; reflecting an increase in hospital costs of 16.8% over 1979.

The most recent data published by this organization showed total hospital expenses increased 18.6 percent between October 1980 and 1981.

But let me warn you, change is coming. The year 1981 was a tough one for health programs but 1982 looms as a period of even more strenuous belt-tightening.

President Reagan was elected to bring government spending and inflation under control. hospital costs are a big target. I just don't see this Administration, nor the Congress, for that matter, standing by while costs increase at nearly double the general rate of inflation. There is going to be a day of reckoning unless there is some relief in this area--the public will demand it.

Secretary Schweiker recently hinted at some sort of capping techniques as a last resort unless other indirect measures such as pro-competition legislation being developed by the Administration, Senator Durenberger and others, begins to turn the situation around.

As one who led the fight in the Finance Committee against mandatory controls, I am deeply concerned that the situation is not turning around quickly enough. I would certainly hope that the newly formed coalition of medicine, business, hospitals, insurance and labor will be more successful than it's predecessor, in its efforts to control costs.

Medicare's most recent projections anticipate 1982 expenditures will reach approximately $50 billion. Combined Federal and State expenditures for medicaid in fiscal year 1982 will reach $32.5 billion. As a result of this continued growth, I fully expect the administration to propose substantial reductions in these programs again this year; and I fully expect the Finance Committee to act on these suggestions and others which organizations like your own may propose to us. A dialogue between the Federal government and providers of health services will be critical if we are to maintain our health care standards and, at the same time, resolve these budget issues in a way that best serves the interests of the public.

I believe the time is long overdue for some major reform in the method of reimbursement for hospitals. Medicare should be both a fair and efficient purchaser of services. Simplistic, across-the-board cuts may provide short-term savings, but we desperately need long-term solutions.

We should move ahead on the development of a prospective reimbursement system. Expansion of the 223 limits to ancillaries, while an unpleasant thought to many of you, may provide us with the additional data necessary to be able to finally begin to formulate prospective rates.

It just seems to me that progress toward the development of such a system is in all of our best interests.

Final resolution of the nursing differential issue is also in our best interests. It makes little sense to argue the same issues year after year. As many of you know, GAO has very recently completed a critique of the existing studies of the differential. We will review this information before proceeding.

The return on equity for proprietary hospitals may also come under consideration again. While recognizing the appropriateness of a return on equity for these institutions, the rate of this return is thought by some to be excessive.

I believe we must continue our examination of opportunities for the private sector insurers to retain their relationship with older individuals who continue to work after 65, and even for those who retire. I believe that we should use private sector alternatives to the extent that they can meet the needs of our elderly. Government programs should be reserved for needs that cannot be met by the private sector.

Discussions related to altering the co-payment arrangements under Medicare have surfaced in the last few months in the context of discussions on budget cuts. While I believe in the value of cost sharing as a way to make individuals conscious of the cost of health care, we must be sure that the Nation's elderly who are already subject to substantial deductibles and co-pays under medicare, are not required to bear an unreasonable financial burden.

Physician reimbursement will not be overlooked in any attempt to reduce medicare expenditures. But here as in many areas, we must take care not to discourage health care providers from caring for Medicare beneficiaries.

In the area of medicaid, I expect further consideration of state requests for flexibility. Attention will also be given to the implementation of the 1981 changes in the hopes of identifying areas where changes are necessary and appropriate. Of course, I am sure there will be a spirited discussion on the larger issue of whether the program should be Federalized.

COMPETITION

All of us in business, labor and politics like to think that we understand the meaning of competition as it applies to the health care industry. But, do we?

It is difficult to dispute the argument that a competitive market is a more efficient allocator of resources, but whether other social goals are achieved is another matter. Many economists believe that the competitive model can free up resources now wasted on inefficient and costly governmental regulatory schemes and make them available for the production and distribution of high quality, cost effective health services.

On the other side, we find most of the health care industry; insurance companies, business and labor, beneficiary groups and providers. Most of those that I have talked with are ambivalent about the influence of competition.

On the one hand, providers are understandably attracted by the promise of less government interference and control in the delivery of health care. On the other hand, they are apprehensive about the limits on government financial support, about the future of private medical practice, about support for medical education and about their own ability to raise the capital necessary for successful competition.

While business is philosophically in tune with competitive proposals, it objects to statutory intrusions into employment fringe benefits.

At first blush it appears that the competition proposals have no chance of acceptance. I disagree.

There is no question that the 1980 election has vastly increased the stock of the pro-competition proponents. We can expect a great deal more discussion during 1982 and we may well find some elements of competition included in legislation this year.

SOCIAL SECURITY

By any reasonable system of accounting, social security is faced with impending bankruptcy--simply put, the inability to make benefit payments on time. There are, of course, some politicians, seizing on social security as a potentially explosive campaign issue, who are not convinced. But the facts speak for themselves and there is widespread agreement that the solvency of the system is in jeopardy.

The Social Security Board of Trustees, the Congressional Budget Office, and a wide variety of private actuaries and economists all report the same bleak outlook. Under any major set of economic projections, the OASI trust fund--the one that pays 75% of all benefits--would, in the absence of interfund borrowing, be insolvent within the next two years. Having paid out more than it took in over the last 7 years, the fund is expected to have a deficit on the order of $60 billion in the next 5 years alone. Interfund borrowing, which is authorized through 1982 under recently enacted legislation, will certainly improve the immediate situation. It does not, however, deal with the fundamental problem--the system's income is not likely to meet benefit costs throughout the decade.

Responsible Americans everywhere know the seriousness of the situation and the need to take steps now to shore up the system. Responsible members of Congress also recognize the need for action before the short-term crisis gives way to the equally acute long-term crisis.

Unfortunately, as we have seen, the use of social security as a political football made responsible, effective reform impossible last year.

Yet, I don't think we can write off last year as a total loss. The method of financing social security, the inadequacy of reserves, the existence of unessential benefits, and the importance of moderating growth were all seriously debated. Surely, this public debate has led to a better understanding of the nature of social security, including the costs and consequences of the program, that will be so important to meaningful reform.

The appointment by the President and the leaders of the House and Senate of a bipartisan National Commission on Social Security will hopefully lead to a fresh examination of reform proposals which will not center on the favorite answer to social security financing problems in the past -- payroll tax increases. The National Commission is scheduled to issue its report and recommendations by December 31, 1982.

As a member of the Commission, I look forward to working on the tough issues with a diverse group representing business, labor and the legislative branch. Given the highly charged political atmosphere surrounding social security last year, I certainly hope the Commission will provide a new forum for constructive discussion of realistic reforms.

VIEW OF THE FUTURE

The President's State of the Union address gave us a great deal to think about. This President wants us to plan for the future. He wants us to truly reexamine the roles of the Federal Government and the State governments. I for one look forward to the debate and discussions surrounding these far ranging proposals.

With regard to Federalization of medicaid, there are obviously a large number of questions which would need to be resolved. But initially I believe there are a number of positive outcomes possible from such a move.

Certainly such changes would allow for more equitable distribution of health service dollars, related to the actual evidence of poverty, or health problems, rather than simply a State's willingness or ability to pay.

As a result of the number and variety of State programs, the benefit of using a uniform management system and the benefit of large scale purchasing and cost control are more difficult under the current system. The Federalization of the program could help to resolve these problems.

However, the massive reshuffling of medicaid and other major programs is a complex undertaking, one that could produce some pitfalls. It is vital that any reorganization of major programs guarantees that needy Americans continue to receive essential services and assistance.

CONCLUSION

I look forward to working with all of you in meeting the challenges that face us. As I noted earlier, change is coming. I continue to believe that the private sector solutions to our problem's are preferable to Federal intervention. Help to prove me correct.