OUTLINE OF REMARKS

American College of Surgeons

Friday, April 15, 1983

Madison Hotel

- It is a real pleasure for me to be with you this morning and have an opportunity to share with you some of my concerns about our economy generally, and about the health care sector specifically.

- The American College of Surgeons has a long history of supporting high quality in the delivery of health services. It is vital for us to work together to address many of the issues that will be facing us over the months and years ahead.

- Ours is clearly one of the best health systems in the world. It is in all of our best interest that it function on a reasonable and cost effective basis.

- But before discussing health care, I'd like to spend a moment or two giving you an overview of where we are generally with respect to the economy and our fight against inflation.

The Economy

- Prognosis. We have to realistically assess the state of the economy and the prospects for the next few years. The fact is that the groundwork has been laid for a stable and lasting recovery, without renewed inflation. It is absolutely crucial that we proceed with care at this point, and not throw away the gains already made.

- No one should doubt that we are making progress. In January the index of leading economic indicators jumped 3.6 percent--the biggest one-month rise since 1950, and the ninth increase in the last 10 months. In addition, the "concurrent indicators" of current economic performance rose .6 percent in January, showing we are in recovery.

- Inflation was cut to 3.9 percent in 1982, from 12.4 percent in 1980. This is the lowest inflation rate since 1972. And the trend is continuing: consumer prices dropped 0.2 percent in February.

- Interest rates are down and still falling. The prime rate is down to 10 1/2 percent, way down from the 21 percent that prevailed when President Reagan took office. Home mortgage rates are down 3 points since last year. Long-

term rates for business loans are off 3 to 4 points from a year ago.

- o Government spending growth rate is down to 11.2 percent this year from 17.4 percent in 1980. The 1983 budget resolution projects the growth rate of government to fall to 7.5 percent by 1985.

- o Lower taxes with major improvements in tax equity will help buoy the recovery, both on the consumer side and on the investment side. The combined effect of the 1981 and 1982 tax bills has been to lower individual taxes over 3 years by $344 billion, as well as improve compliance and tax fairness. Lower individual rates boost personal income and restore incentive, while favorable capital cost recovery rules should spur investment.

- o In January, industrial production was up 0.9 percent; housing starts were up 36 percent; the stock market is up 300+ points over last August. These are tangible evidence of recovery.

- o Unemployment. The March drop in unemployment to 10.3 percent is major good news, and the decline has not been reversed, although there may be a few "blips" upward. Unemployment, of course, remains the major negative in the economic picture. High unemployment has to come down and stay down without inflationary stimulus--that is what we have failed to do in the past.

- o Clearly there is a bipartisan consensus for more jobs. But resuming the inflationary policies of the past will not create lasting jobs, just an illusion of prosperity that leaves us worse off the next time we try to get "off the wagon."

- o That means the most important thing we must do is judge carefully the degree of stimulus the economy can and should take, consistent with a firm anti-inflation policy. The Federal Reserve will play a key role, and has already shown a willingness to adjust its short-term goals based on an assessment of the weakness of the economy. We will not allow the recession to continue, but we will not reinflate the economy, either.

- o While the main emphasis must remain on the long-term goals of growth with low inflation, there are steps we can take in the short term to deal with the plight of the unemployed. Many things have already been done:

  - A new Federal supplemental unemployment compensation program was passed with the 1982 tax bill, providing

additional unemployment benefits to about 2 million workers in 38 States. The House and Senate have agreed to extend this program through September 30.

The President signed into law the new Job Training Partnership Act, which emphasizes training for permanent employment rather than make-work jobs. New initiatives outlined by the President focus on the long-term unemployed, youth, and on training or relocating displaced workers who lost jobs due to plant closures or force reductions

- The targeted jobs tax credit, which was extended for 2 years by the 1982 tax bill, gives employers a real incentive to hire the disadvantaged--about 600,000 workers are certified under the program

- The administration's enterprise zone legislation, reported last fall by the Finance Committee, can provide us with an experiment in private-sector job creation in depressed areas, through a combination of Federal tax incentives and State and local efforts to target an area for development with regulatory and tax relief, neighborhood participation, and capital and other improvements

- The 5¢ per gallon gax tax increase can create over 300,000 jobs by funding much needed repairs and construction of the Federal highway system.

The Deficit and Interest Rates.

o All our economic difficulties are, of course, related--high interest rates and slow growth boost the deficit, and higher deficits create greater uncertainty in the business community as to our future course; will there be more inflation, or less credit available for business expansion?

o Because of this, it makes sense first of all to chart a path that is most likely to bring stable growth without inflation. Higher growth boosts revenues and cuts unemployment costs, thereby reducing the deficit as well: already, upward revisions of growth estimates are being made in light of the economic indicators.

o In the short term, as the President urges, it makes sense to continue to review every part of the Federal budget in an effort to bring the deficit down. This means both defense and entitlements must be under scrutiny to maximize the efficiency of every dollar spent. A balanced

deficit reduction program is still our goal: the Budget Committee will produce a budget resolution some time this week.

The Budget

- We all know that developing a credible, deficit-reducing budget for 1984 and beyond is going to take a lot of hard work and give and take on all sides, Democrat and Republican, liberal and conservative. The President has made his proposal, and the House has adopted a radically different alternative. We are likely to end up with something in between, but we ought to consider for a moment who is closer to the mark in terms of the vital needs of our economy and in terms of natinal priorities.

- House resolution. The House-passed budget resolution, engineered by the Democratic leadership, simply is not a credible plan for meeting our priorities and achieving sustained economic growth. The House recommends a $30 billion tax increase in FY 1984 alone. That is not only an unreasonable increase in the tax burden as we come out of a recession, it can only mean that House Democrats want to repeal the third year of the tax cut for the working people. Reneging on promises is no way to run the government, and that proposal must be rejected. Even the members of the House Ways and Means committee have expressed strong doubts that any more than $8 billion in revenue can or should be raised in 1984.

- Defense spending. The President has recommended a 10 percent real increase in defense spending, and the House recommends a mere 4 percent increase. We all know that defense, like every area of the budget, will have to assume a fair share of the burden of deficit reduction. But surely we ought to take more seriously the President's concern about our national strength vis-a-vis the Soviet Union. We can and probably will have to modify the President's defense request, and the President will have to deal with both the Senate and the House leadership if we are to get agreement. We do have to get more out of each defense dollar spent. But the House-proposed increase is not wise, reasonable, or in the national interest.

- Domestic spending. There is widespread agreement that we cannot let the burden of deficit reduction continue to fall on benefits for lower-income Americans. But that does not mean domestic spending is untouchable--it can and must be reduced, something the Democratic budget fails to acknowledge. The House resolution provides $25 billion

more for nonmilitary spending than does the President's budget. $6 billion of that difference is in the health area: and certainly we have reached the point where we should acknowledge that Federal health program costs are not under control, and that changes to control costs are very much in order. The American people do want to share the cost of reducing the deficit in a fair way. But they do not want national security risked, or the tax burden on individuals raised to an unconscionable degree, just because some members of Congress do not want to reexamine programs that may have outlived their usefullness or have become grossly inefficient. Instead, let us work together, and with the President, to reach a bipartisan agreement like that worked out on social security.

- o Senate budget resolution. As of last evening the Budget Committee had tentitively decided to propose savings of $4.9 billion over the next three years in the medicare and medicaid programs. $3.4 billion from medicare and $1.5 billion from medicaid. They assumed that some of these savings would result from changes in physician reimbursement.

This brings me to our discussion of health care.

CURRENT ISSUES

- o Today any broad discussion about health care quickly evolves into a narrower discussion about health care costs. This is true of not only medicare and medicaid, but of any payment source. Needless to say, how we pay for services plays an important part in these discussions.

Health Care Costs

- o Health care expenditures amounted to $1,225 per person in 1981. 42.7 percent of these dollars came from public funds. The government has recognized the medical cost problem since the early 1970's, but recognition of the problem has not brought about agreement on the solution.

- o Many of you have heard me comment that this is the year of the physician. In a sense that is true, although clearly much of our time so far has been spent on hospital reimbursement.

- o In 1982, through the Tax Equity and Fiscal Responsibility Act, we asked that cost savings be borne by all parties to the medicare program--hospitals, doctors, and beneficiaries. However, because we felt that cost savings imposed on physicians could all too easily translate into a burden on beneficiaries, most physicians were not

affected by the changes we made. So in that sense, physicians represent an opportunity for additional cost savings for 1984. Indeed, we are committed to examining physician reimbursement in detail--seeking out changes that result in savings without reducing access to care or unreasonably increasing out-of-pocket expenses for beneficiaries.

Physician Reimbursement

- Physicians have made a tremendous contribution to the medicare program. In examining their reimbursement, it is not our intention to punish, but rather to seek out incentives to encourage assignment and to encourage the efficient use of services.

- As the most influential group in the health care industry, and as those who are among the most highly paid professionals in the Nation, physicians should assist us in the very important task of reforming the reimbursement system and reducing the rate of growth in the medicare program.

- There are really three major issues at stake with respect to physician reimbursement:

  (1) how we determine what we pay,

  (2) how we encourage physicians to take assignment and

  (3) how to help beneficiaries to identify physicians that take assignment.

- With respect to how we pay, there is some interest in a DRG-like payment model for physicians. Obviously this will take some time to consider and evaluate. The reason for such a system would be to create for physicians the same incentives we hope to create for hospitals, incentives to provide care more efficiently.

- There is also a desire to begin to recognize more fairly the services provided to patients which are cognitive and not simply technical in nature. Many physicians have complained that we only pay them for tests and exams, and never for the time spent simply talking with a patient. A DRG-like payment system sets an amount of payment per case; it is then the physician's decision how best to utilize those dollars.

- I don't mean to suggest that DRG's are the only answer, or that they will suit every situation. But it seems to me that in many cases, for example, surgery, or long term

management of a hypertensive patient, some form of comprehensive payment may make sense.

- With respect to the assignment issue, there is obviously a desire to increase the number of physicians willing to take medicare payment as full payment. We are interested in hearing what you suggest in the way of incentives. Clearly simply paying more money is one option, but at a time when we are trying to reduce the rate of growth in medicare, it doesn't seem very likely.

- The overall budget and the pending insolvency of the medicare trust fund will force us to look to medicare again this year for some savings. I'd like to make changes that not only save money, but also make sense.

- The important thing to keep in mind during these budget discussions is the terrible problems faced by medicare if no changes take place. If you think we faced serious deficit problems with the social security cash program, you're in for a big surprise when you look down the road at medicare's future. Using the current optimistic assumptions, medicare could literally go broke sometime toward the end of the decade, perhaps as early as 1988.

Prospective Payment for Hospitals

- Hospitals have lacked incentives to control costs because the current cost-based system allows greater payments for ever-growing costs. Clearly, some change was needed, and that change began with the adoption of incentives for the efficient delivery of hospital services in the form of a prospective payment system.

- The change is not complete, however. There are several issues which still need to be resolved. Capital costs will be paid on a pass-through basis until 1986. Before then some provision must be made to deal with these costs in the prospective framework. Modifications to the DRG's to reflect intensity of care and severity of illness must also be addressed, as must the whole issue of how physician services might be included in a DRG-type prospective payment system. We look forward to your help in addressing these issues.

- Prospective payment for hospitals is a solution to cost growth, but it is not by itself a solution to the solvency problem faced by the medicare trust fund. As I indicated, physicians will have to be a part of the solution.

Beneficiary Cost Sharing

- The value of increased cost sharing is obviously going to be an issue this year. Medicare beneficiaries, along with any other patients, should be made sensitive to the high cost of care, but this is not much help unless the patient can do something about it. Price sensitivity makes sense where the beneficiary's decision to seek medical care is his or hers to make and it does not cause needless delay in seeking needed care. Cost sharing can be useful and is appropriate in many instances, but we must use caution.

- The idea of cost sharing to deter unnecessary utilization and dampen spiralling health care costs is by no means a resolved issue. There are those who strongly favor it, as well as those who oppose it, believing that it defeats the goal of making health care accessible.

- The Administration has suggested increased medicare cost sharing with a new protection against catastrophic costs. Certainly this proposal warrants our review. Catastrophic health care costs are a tremendous concern to the elderly, and coverage of these expenses might mean a great deal to many. However, the proposal would result in increased costs to a great number of beneficiaries and reduced costs to very few.

- One other option we may consider in examining ways to alter cost sharing is increasing the part B premium for those elderly individuals with relatively high incomes. As you recall, we made changes this year with respect to the social security retirement program that would provide for taxing the benefits of wealthier beneficiaries. A change in the part B premium could be seen as consistent with this move.