

FOR IMMEDIATE RELEASE  
THURSDAY, MARCH 8, 1979

CONTACT: BOB WAITE/BILL KATS  
(202) 224-8953, 8947

REMARKS OF SENATOR BOB DOLE

WASHINGTON NON-PROFIT TAX CONFERENCE

Thursday, March 8, 1979

I am pleased to have this opportunity to share a few of my ideas about the state of America's tax system with you, the acknowledged experts. One thing we can all agree on is the popular dissatisfaction with taxes in general, and the current hodgepodge of a system in particular.

THE 1978 REVENUE ACT

As ranking Republican member on the Senate Finance Committee, I have a special interest in the complex and interlocking relationship of tax policy to capital formation and economic development. Because I happen to believe in free enterprise as more than a mere slogan, I am encouraged at the shift toward economic responsibility that marks the 1978 Revenue Act. I hope its incentives for business expansion may set a trend for the future; the reductions voted in both the corporate tax rate and in capital gains were vital first steps toward reversing the decline of American productivity, which in itself forms a major reason for the current inflationary spiral.

Until we spur private investment, until we accept the responsibility of federal tax policy to encourage research and development, plant modernization and job expansion, then Washington's approach to the economy will remain little more than a warmed over New Deal. And that is precisely the approach the American people have grown weary of.

Corporate and capital gains notwithstanding, it is inappropriate to refer to the 1978 law as a tax cut in the truest sense. Despite the magnitude of the reductions we adopted last year, Americans can still look forward, if that is the right phrase, to nearly \$10 billion in tax increases this year alone.

The reason is simple. It is called taxflation, that is, the relentless and thus far unchecked effect of inflation eating away at your purchasing power. Stop and think about it for a moment: Assume you get a raise to keep pace with inflation. Assume this raise places you in a higher income bracket. As a result of your new bracket, you wind up paying additional taxes. In fact, you may actually wind up worse off than you were to begin with. Not only must you endure inflation's bite on nearly every item you purchase; now you must also see your raise gone with the winds of irresponsible government.

This is clearly unfair. Just as bad, it is an incentive to politically minded Congresspersons to fuel inflation's engine, so that they can vote an election year "tax cut". Never mind that the cut is no cut in reality; the headline makers will use those magic words and all will be forgiven.

Because I reject this whole process as intellectually dishonest, I have introduced legislation which would index tax rates, tying them to the Consumer Price Index. This way, tax brackets themselves rise along with prices. If you earn a raise, you keep the raise. I think indexing is a much fairer way to assess the tax burden. I hope you might agree and make your feelings known to my colleagues.

A PROPOSAL FOR SOCIAL SECURITY REFORM

I am also introducing in this session of Congress legislation which would roll back the Social Security tax rate to its 1978 level. Equally important, it would roll back the wage base on which taxes are assessed to the 1979 level. This means that Social Security taxes would be levied on \$22,900 instead of \$25,000. This is no Washington slight of hand: by adopting judicious policies with regard to existing funds, by shifting a small portion of the tax from the healthy hospital insurance fund to the less healthy old age, survivors, and disability



-2-

insurance fund, we can insure the basic vitality of the nation's Social Security system.

In the decade of the eighties, such a proposal could save over \$133 billion in taxes--without for a moment posing any threat to the solvency of the trust funds. It would attack inflation at its roots, while providing American workers with up to \$200 in savings in 1980 alone.

The significance of such a saving to economic growth should be obvious. Hopefully, it will be obvious enough to the Congress to win Congressional approval this year.

#### THE FINANCE COMMITTEE AGENDA

Beyond these areas, it is unlikely that we will see much tax legislation passed in 1979. The Finance Committee in its recommendations to the Budget Committee anticipated that there will be less than a \$2 billion tax cut this year. The only revenue reduction provided for by the committee was in the area of Real Wage Insurances.

Close examination of the Administration's budget reveals that the Administration tends to move towards a balanced budget by allowing taxes to increase. In fact, the personal tax burden will rise much more rapidly than personal income--another reason why tax indexing is vitally important.

This year, the Finance Committee will try to resolve the Independent Contractor employment tax issue. Last year the Revenue Act contained an amendment I sponsored which temporarily resolved the issue in favor of the taxpayers. It seemed to many of us in Congress that the overzealous audit position and unreasonable ruling service had gone far enough.

#### REPEALING CARRYOVER BASIS

Now, it is up to Congress to establish a logical and certain test to allow individual businesses to determine their employment tax status. The committee will also try to solve the dilemma of the "carryover" debacle. As most of you know, the Tax Reform Act of 1976 established a virtually unworkable set of rules regarding the basis of an asset which passes from an estate. The carryover basis rules are complicated, unfair, and in many cases the cause of economic hardship. As the sponsor of S.112, a bill to repeal carryover basis, I believe it is incumbent upon Congress to eliminate the onerous and ill-conceived carryover basis rules.

#### COMPLICATED DISASTER

There is no question that the 1976 law is riddled with complexities that defy even the most sophisticated tax technician. And even if the inordinate complexities can be eliminated, which I doubt, there still remain many difficulties with carryover basis. The recordkeeping requirements and the question regarding fiduciary responsibility should not be overlooked. Carryover basis also increases the relative tax burden. Its impact must be examined from the standpoint of both death taxes and income taxes generated by the sale of assets to pay for estate taxes. The cumulative effect of federal estate tax, state death taxes, and federal and state income taxes imposed upon an estate will often consume nearly all assets. The harsh result that comes from selling assets to raise money to pay death taxes should not be allowed to continue.

Mr. Chairman, the enactment of carryover basis was a mistake. Congress should take the appropriate action to eliminate this error. I have urged the Senate Finance Committee to move expeditiously on my proposal for repeal.

The committee will hold three days of hearings beginning next week on carryover basis. I anticipate a spirited debate.

The task force on fringe benefits established in the Ways and Means Committee has recently issued a draft discussion on the taxation of fringe benefits. Needless to say, this is also an area which is very controversial. Does an employee have gross income because his employer furnishes him a parking space? Do airline employees have income because they occupy an empty seat on the plane? You can envision many scenarios in which normal, everyday transactions may give rise to income in the strictest and technical sense of the law.

#### REFORMING ERISA

I also anticipate that the committee will be working on several initiatives to help capital formation. On the drawing boards are proposals to liberalize depreciation rules and to provide tax credits or other incentives for research and development expenses. In addition, we will be taking a look at ERISA.

Enactment of the Employment Retirement Income Security Act of 1974 has contributed to the instability of many qualified pension plans. Under ERISA, an individual is allowed a tax deduction for contributions to an Individual Retirement Account. However, the 1974 law



-3-

failed to permit a deduction for an employee contribution to a qualified plan. This disparity has resulted in a drop of employee participation in private pension plans.

#### CURRENT LAW

Under current law, an individual who is entitled to make a deductible contribution to an Individual Retirement Account may generally make a contribution up to the lesser of \$1,500 or 15 percent of compensation for the year. The individual may not make a deductible contribution to an IRA if the individual is an active participant during any part of the tax year in a qualified plan, a tax-deferred annuity maintained by a tax-exempt institution, or a governmental plan.

As a result of the law, an active participant in such a plan may not make a deductible IRA contribution even though the employer's contribution on behalf of the individual is small, or the individual might never invest in a retirement benefit because of frequent changes in employment.

#### REVENUE ACT OF 1978

The initiative which I have introduced is similar to a provision which I sponsored as part of the Senate-passed Revenue Act of 1978. Although the section was deleted in conference, the support for the measure remains strong. Essentially, my bill allows an employee who participates in a plan maintained by the employer to deduct contributions to either the plan or contributions to an IRA. The contribution is limited to the lesser of 10 percent of compensation or \$1,000.

#### THE HOAX OF WAGE INSURANCE

There is one item which may or may not come before the committee. The Ways and Means Committee has delayed its consideration of the so-called Real Wage Insurance Program. I have serious reservations about the program. I doubt that it will actually induce any employees to keep their salary increases below 7 percent. In addition, the cost of the program and its administrative difficulties put a question mark on the legislative agenda. There appears to be no real enthusiasm for the idea.

I also hope that the Finance Committee will begin a program of systematic review of the Tax Code. At the first organizational meeting I suggested that we embark on a technical overhaul of the tax laws on a step-by-step basis. A working group has been established among the House and Senate staff to begin on the project, and I am hopeful that even this minor review of the Code will bring some certainty into the practice of tax law.

#### AN ECONOMIC PARTNERSHIP

On all of these issues, the Congress, like the Administration, cannot hope to guide future policy without the constructive input of you, the experts in financial planning.

If I leave you with a single message, let it be this: no amount of talk about a balanced budget or economic incentive will succeed unless we persuade the American people that it is in their best interest to support the new economics of production over consumption, of a strong private sector in preference to a dictatorial public one. For in the end, however slowly the glacier of official Washington may move, it does respond to their appeals. They do call the shots, however sluggish we may be in responding. Right now, they are willing to accept a rebirth of free enterprise and a corresponding reduction in intrusive government.

To capitalize on that still vague feeling, to harden it into conviction, is the task we face before us. We cannot afford to sit back in comfortable apathy.

--30--



CO-OPERATION AND CONSENSUS

AS I AM SURE YOU ARE AWARE, HEARINGS ON CATASTROPHIC HEALTH INSURANCE ARE SCHEDULED TO BE HELD IN THE SENATE FINANCE COMMITTEE ON MARCH 27 AND 28. WHAT I HAVE OUTLINED IN BROAD FORM THIS MORNING REPRESENTS ONE SENATOR'S CONTRIBUTION TO WHAT PROMISES TO BE A PROTRACTED DEBATE OVER NATIONAL HEALTH INSURANCE. I LOOK FORWARD TO WORKING CLOSELY WITH YOUR STAFF IN PERFECTING THE IMPERFECT, AND HONING THE BROAD OUTLINES OF CATASTROPHIC HEALTH INSURANCE INTO A VIABLE ALTERNATIVE TO THE IMPOSSIBLY EXPENSIVE CRADLE TO GRAVE APPROACH FAVORED BY SENATOR KENNEDY, AMONG OTHERS.

## THE PUBLIC CATASTROPHIC HEALTH INSURANCE PROGRAM

THE PUBLIC PROGRAM WILL PROVIDE FOR AGREEMENTS WITH PRIVATE INSURANCE COMPANIES FOR THE PROVISION OF CATASTROPHIC COVERAGE FOR THOSE NOT COVERED UNDER A PRIVATE CATASTROPHIC HEALTH INSURANCE PROGRAM, MEDICARE, OR MEDICAID. THE CATASTROPHIC PROGRAM WILL PROTECT INDIVIDUALS AND FAMILIES AFTER 60 DAYS OF HOSPITALIZATION OR AFTER THE FAMILY HAS INCURRED \$5,000 IN EXPENSES FOR CERTAIN COVERED SERVICES. AN ADDITIONAL TEST WILL APPLY UNDER THE PUBLIC PROGRAM TO DETERMINE A CATASTROPHIC EVENT. IF THE FAMILY HAS OUT-OF-POCKET MEDICAL AND HOSPITAL EXPENSES THAT EXCEED 20 PERCENT OF INCOME, BENEFITS WILL BE TRIGGERED IN. THE FEDERAL GOVERNMENT WILL SUBSIDIZE THE PREMIUMS FOR LOW-INCOME FAMILIES WHILE ALL OTHERS MUST PAY THE FULL PREMIUM FOR THIS INSURANCE COVERAGE. THIS PLAN WILL NOT REPLACE THE EXISTING MEDICAID PROGRAM, AND ALLOWS INDIVIDUALS TO CHOOSE WHETHER OR NOT TO PARTICIPATE IN OUR PROGRAM.

THIS PROGRAM INCLUDES PROVISIONS TO PROTECT THE UNEMPLOYED AFTER TERMINATION OF EMPLOYMENT. PREMIUM COSTS MAY BE SHARED BETWEEN THE EMPLOYERS AND EMPLOYEES FOR THIS CATASTROPHIC COVERAGE. EMPLOYERS WHO DO NOT MAKE AVAILABLE CATASTROPHIC HEALTH INSURANCE COVERAGE AS DEFINED BY THIS PROGRAM, TO THEIR EMPLOYEES, WOULD NOT BE PERMITTED TO CLAIM AS A BUSINESS EXPENSE, FOR TAX PURPOSES, THEIR PORTION OF A HEALTH INSURANCE PREMIUM. INDIVIDUALS WOULD NOT BE PERMITTED TO CLAIM, AS A TAX DEDUCTION, AMOUNTS PAID FOR A HEALTH INSURANCE PLAN WHICH DOES NOT INCLUDE THE SPECIFIED CATASTROPHIC BENEFITS. SHOULD EMPLOYERS FACE SUBSTANTIAL INCREASES IN PAYROLL COSTS, DUE TO COMPLIANCE WITH THE PROGRAM, THEY MAY QUALIFY FOR A LIMITED SUBSIDY THROUGH THE TAX SYSTEM.



AFTER THE BENEFICIARY HAS INCURRED \$5,000 OF EXPENSES FOR COVERED PHYSICIAN SERVICES AND OTHER MEDICAL CARE ITEMS AND SERVICES (INCLUDING DRUGS NOT OTHERWISE COVERED UNDER MEDICARE), MEDICARE WILL PAY 100 PERCENT OF THE COST OF ADDITIONAL COVERAGE SERVICES, PLUS THE COST OF CERTAIN OUTPATIENT PRESCRIPTION DRUGS, FREQUENTLY USED IN THE TREATMENT OF LONG-TERM ILLNESS.

THE PRIVATE CATASTROPHIC HEALTH INSURANCE PROGRAM

THE INTENT OF THE PRIVATE CATASTROPHIC HEALTH INSURANCE PROGRAM IS TO ASSURE THAT THE MAJORITY OF THE POPULATION IS PROTECTED THROUGH PRIVATE INSURANCE AGAINST THE COST ASSOCIATED WITH CATASTROPHIC ILLNESS. IN GENERAL, EMPLOYERS WOULD BE REQUIRED TO OFFER THEIR EMPLOYEES GROUPS HEALTH INSURANCE WITH BENEFITS PROTECTING EMPLOYEES AND THEIR FAMILIES AFTER 60 DAYS OF HOSPITALIZATION OR AFTER THE FAMILY UNIT HAS INCURRED \$5,000 WORTH OF EXPENSES FOR CERTAIN COVERED SERVICES.

## BRIEF OVERVIEW OF THE DOLE HEALTH BILL

ANY HEALTH INSURANCE PROGRAM MUST RECOGNIZE A FINITE BASE OF RESOURCES, AND PROCEED FROM A DESIRE TO PROTECT AMERICANS FROM FINANCIAL BANKRUPTCY DUE TO CATASTROPHIC ILLNESS OR EXPENSES. I WILL SOON SUBMIT FOR CONGRESSIONAL CONSIDERATION MY OWN PLAN, WHICH STRESSES SUCH CATASTROPHIC INSURANCE, ALONG WITH REFORM OF THE EXISTING MEDICARE SYSTEM.

### MEDICARE REFORM

THE MEDICARE PORTION OF THE PROGRAM IS INTENDED TO PROTECT ITS BENEFICIARIES BY MODIFICATION OF BENEFIT PACKAGE AND COST-SHARING PROVISIONS. CATASTROPHIC PROTECTION WILL BE ACCOMPLISHED BY REMOVING PRESENT LIMITATIONS ON COVERED HOSPITAL CARE, SKILLED NURSING FACILITIES, AND HOME HEALTH SERVICE. TIMING OF THE INTRODUCTION OF BENEFIT IMPROVEMENTS WILL DEPEND UPON COST CONSIDERATIONS AND EXISTING RESOURCES. CURRENT FINANCING MECHANISMS FOR MEDICARE WILL BE USED.



HEALTH CARE IS A BIG BUSINESS IN 1979. YOU KNOW THAT BETTER THAN I. BUT YOU MUST ALSO ACCEPT THAT RIFTS ARE DEVELOPING WITHIN SOCIETY OVER THE COST OF SUCH CARE; CORPORATIONS ARE QUESTIONING THE AMOUNT OF THEIR MONEY PUT INTO HEALTH INSURANCE PLANS. UNIONS ARE ASKING THEMSELVES IF THEY DO NOT BARGAIN AS EFFECTIVELY FOR HEALTH PROFESSIONALS AS FOR THEIR OWN MEMBERS. AND, OF COURSE, MILLIONS OF ORDINARY CITIZENS ARE WILLING TO TELL THE NEAREST POLLSTER THAT THEY CONSIDER THE COST OF GOOD HEALTH IN THIS COUNTRY A NATIONAL OUTRAGE. THEY PROBABLY DO THIS EN ROUTE TO A LUNCH OF EMPTY CALORIES AND STARCH, HAVING DEVOUNPED A COUPLE OF SOFT DRINKS IN THE MORNING AND PREPARED FOR AN EVENING PLOPPED BEFORE THE TELEVISION, POTATO CHIPS AND CANDY BARS FIRMLY CLENCHED.

THE PROBLEM WOULD BE A LOT EASIER IF THE AMERICAN PEOPLE WOULD TAKE CARE OF THEMSELVES. AND HEALTH EDUCATION MUST BE MADE A PRIMARY RESPONSIBILITY OF ALL THOSE INTERESTED IN PROMOTING A NATION OF WELL PEOPLE. WE MUST NEVER CONFUSE THE PURSUIT OF HAPPINESS WITH HOSTESS TWINKIES OR CHEF BOYARDEE.



## COMPETITION VERSUS REGULATION

THUS ARISES THE ULTIMATE QUESTION RELEVANT TO BOTH ISSUES AT HAND: NAMELY, WHAT MIX OF COMPETITION AND REGULATION IS BEST IN AN ECONOMY OF LIMITED HEALTH RESOURCES? TO PUT IT ANOTHER WAY, HOW CAN THE PUBLIC AND PRIVATE SECTORS SHARE RESPONSIBILITY FOR DESIGNING AND OPERATING SYSTEMS OF COST-EFFECTIVE HEALTH CARE THAT ARE AVAILABLE TO THE GREATEST NUMBER OF PEOPLE?

THAT HOSPITAL COSTS ARE RISING IS BEYOND DOUBT. THE AVERAGE AMERICAN NOW WORKS A FULL MONTH OUT OF EVERY YEAR TO PAY HIS OR HER SHARE OF THE NATIONAL MEDICAL BILL. HEALTH CARE COSTS NOW FORM APPROXIMATELY 9% OF THE GROSS NATIONAL PRODUCT. BUT THE COSTS OF GOOD HEALTH TRANSLATE THEMSELVES INTO LESS OBVIOUS FORMS THAN THE FEDERAL LEDGER. A NEW CAR INCLUDES THE COST OF HEALTH INSURANCE FOR AUTO WORKERS. THE SAME RULE CAN BE APPLIED TO HUNDREDS OF OTHER PRODUCTS OF MODERN INDUSTRIAL SOCIETY.



CONTRADICTIONS WITHIN THE FIELD ARE MANY. HEALTH CARE IS CAUGHT BETWEEN THE TRADITIONAL DESIRE FOR INDIVIDUAL FREEDOM AND THE EQUALLY STRONG DESIRE FOR INDIVIDUAL AND GROUP SECURITY. PROVIDERS SUCH AS YOURSELVES ARE HISTORICALLY INDIVIDUALISTS OF THE ENTREPRENEURIAL SCHOOL, WHILE GOVERNMENT OFFICIALS SEEK POLITICAL SOLUTIONS THROUGH GENERAL APPLICATION OF REGULATIONS.

IN SHORT, THE ONLY THING COMMON TO OUR HOSPITALS AND THE PROFESSIONALS WHO RUN THEM IS DIVERSITY. AND ONE REASON WHY I AM PERSONALLY WARY OF MASSIVE FEDERAL INTRUSION INTO THE FIELD IS PRECISELY THIS DIVERSITY. ANY SYSTEM OF COST CONTAINMENT OR HEALTH INSURANCE MUST PROVIDE FOR FLEXIBILITY IN ADMINISTRATION AND PERMIT CHANGE FROM GENERATION TO GENERATION. I DO NOT WISH TO SADDLE MY CHILDREN OR GRANDCHILDREN WITH SYSTEMS TOO RIGID TO ADMIT REFORM, NOR TOO RIDDLED BY PAPERWORK TO MAINTAIN THE HISTORIC TRADITION OF INDIVIDUAL CHOICE AND LOCAL OVERSIGHT.



AFTER THOSE BROAD GENERALITIES, HOWEVER, ALL IS A BLUR. IT'S NO SECRET THAT THE D.C. IN WASHINGTON, D.C. IS SOMETIMES SAID TO STAND FOR DARKNESS AND CONFUSION. ON THE HEALTH ISSUE, WE HAVE A GREAT DEAL OF BOTH. AND THAT IS WHAT I'D LIKE TO CUT THROUGH TODAY.

THE HEALTH INDUSTRY IS UNLIKE ANY OTHER. IT DISPENSES A PRODUCT USED INFREQUENTLY BY MOST OF US. WHEN WE NEED THAT PRODUCT, HOWEVER, WE WANT IT IMMEDIATELY, AND WE WANT IT TO BE PERFECT. IN NO AREA OF AMERICAN LIFE DO EXPECTATIONS RUN HIGHER.

YET CONVENTIONAL ECONOMIC RULES DO NOT APPLY. CONTRARY TO MOST FIELDS, GREATER DEMAND FEEDS UPON ITSELF. SUPPLY AND DEMAND DOESN'T REALLY WORK WHEN YOU'RE DEALING WITH HUMAN LIVES. PRICE IS NOT USUALLY A FACTOR IN DECIDING WHERE TO GO OR WHOM TO SEEK HELP FROM. YET FACTORS SUCH AS GEOGRAPHY AND DOCTOR PREFERENCE, AS IMPOSSIBLE TO REGULATE AS HUMAN EMOTION ITSELF, PREDOMINATE.



REMARKS OF SENATOR BOB DOLE  
AMERICAN HOSPITAL ASSOCIATION

WASHINGTON, D.C.

FEBRUARY 5, 1979

LET ME BEGIN BY TELLING YOU HOW HONORED I AM BY YOUR INVITATION TO SPEAK, AND HOW MUCH I WELCOME THIS OPPORTUNITY TO SHARE WITH YOU SOME OF MY VIEWS ABOUT THE ROLE OF YOU AND YOUR COLLEAGUES ACROSS THE NATION IN PROVIDING THE WORLD'S BEST HEALTH CARE. AS MANY OF YOU KNOW, I NURTURE A CERTAIN SUSPICION ABOUT GOVERNMENT WHEN IT INTRUDES INTO THE PRIVATE SECTOR. I HAVE SEEN TOO MANY REGULATIONS PASSED IN THE NAME OF REFORM AND EFFICIENCY, WHICH INSTEAD HAVE THE ULTIMATE EFFECT OF INEFFICIENCY AND CONFUSION. I HAVE SEEN TOO MANY GOOD INTENTIONS PERVERTED BY BUREAUCRATIC INSENSITIVITY. INDEED, THE ENTIRE CURRENT INFLATION CAN BE TRACED IN LARGE PART TO THE ZEST FOR LAWMAKING AND REGULATION WRITING OF AN OVERACTIVE, INTRUSIVE FEDERAL GOVERNMENT. AND THE HEALTH FIELD IS NO EXCEPTION TO THIS SORRY RULE.



OUR EXPERIENCE WITH TOBACCO SHOWS THAT GOVERNMENT ALONE CAN HAVE BUT LITTLE POSITIVE INFLUENCE IN SUCH A FIELD. BUT YOU, WHO HAVE FOR YOURSELVES A CAPTIVE AUDIENCE, CAN PROMOTE THE BASICS OF GOOD HEALTH WITH FAR GREATER HOPES FOR SUCCESS. YOUR CREDIBILITY AS A PILLAR OF COMMUNITY SERVICE IS GREATER THAN GOVERNMENT'S. YOUR RESOURCES, BOTH PHYSICAL AND INTELLECTUAL, FAR OUTSTRIP GOVERNMENT'S.

I URGE AS STRONGLY AS I CAN THAT THIS POTENTIAL FOR HEALTH TEACHING BE MAXIMIZED. HOSPITALS NEED NO LONGER BE PERCEIVED AS ILLNESS FACTORIES, BUT AS CLASSROOMS OF HEALTH. HOSPITALS AREN'T JUST FOR SICK PEOPLE; THEY'RE TO HELP WELL PEOPLE STAY THAT WAY.

BUT PEOPLE WILL GO ON IGNORING THE RULES OF NUTRITION. THEY WILL CONTINUE TO FALL PREY TO AGE OLD DISEASES, HOWEVER VEHEMENT OUR WARNINGS OR HOPEFUL OUR SCIENTIFIC RESEARCH. AS LONG AS THEY DO, YOU WILL RETAIN AN OBLIGATION OF CARING FOR THEM IN A PROFESSIONAL FASHION, WITHOUT THE SPECTER OF IMMINENT BANKRUPTCY ADDING TO THEIR--OR YOUR--WOES.

SO WE COME BACK AGAIN TO THE CHIEF QUESTION AT HAND. WHAT KIND OF COST CONTAINMENT WILL PRESERVE WHAT IS GOOD ABOUT TRADITIONAL HEALTH CARE?

COST CONTAINMENT: A RIGHT WAY AND A WRONG WAY

THERE IS A RIGHT WAY AND A WRONG WAY TO CONTAIN HOSPITAL COSTS. THE WRONG WAY IS THE COST CONTAINMENT FORMULA PROPOSED BY THE CARTER ADMINISTRATION IN THE PAST. IT ISN'T MUCH OF A FORMULA; MORE AN EDICT FROM ON HIGH. THE PRESIDENT WOULD SLAP AN ACROSS THE BOARD LIMIT ON ANY AND ALL HOSPITALS,

REGARDLESS OF LOCAL OR REGIONAL FACTORS, OBLIVIOUS TO THE HOSPITAL'S UNIQUE RECORD OF ACCOMPLISHMENT IN THE FIELD. THE PROBLEMS WITH SUCH AN APPROACH GO BEYOND ITS ARBITRARY NATURE. FOR ONE THING, THERE IS THE POSSIBILITY THAT A CEILING MIGHT TURN INTO A FLOOR. A CAP MAY BE INEFFECTIVE; CERTAINLY ITS ADMINISTRATION POSES ENORMOUS PROBLEMS OF ENFORCEMENT. FINALLY, ANY CAP PENALIZES HOSPITALS WITH RECORDS OF COST EFFICIENCY, AND REWARDS THOSE WITH LESS IMPRESSIVE RECORDS.



I AM MORE ATTUNED TO THE IDEAS PUT FORWARD BY YOU AND YOUR COLLEAGUES, IDEAS WHICH SEEK TO REPLACE HEAVYHANDED FEDERAL REGULATION WITH VOLUNTARY RESTRAINT. I HAVE WATCHED WITH INTEREST AS YOU'VE DEVISED YOUR OWN GUIDELINES, MEETING EACH TARGET, THE MOST RECENT ONE FALLING UNDER 13 PERCENT. THIS IS ENCOURAGING TO THOSE OF US WHO PREFER PRIVATE TO PUBLIC MANAGEMENT OF OUR HOSPITALS.

BUT THE PRESIDENT, AS STATED IN HIS RECENT BUDGET AND STATE OF THE UNION ADDRESS, CONTINUES TO SINGLE YOUR INDUSTRY OUT FOR FEDERAL OVERSIGHT. THE BATTLE OVER NUMBERS WILL CONTINUE. THE ADMINISTRATION WILL CONTINUE TO UNDERCUT YOUR OWN BEST EFFORTS AT COST CUTTING. BUT I WILL TELL YOU IN ALL HONESTY THAT THOSE EFFORTS MUST CONTINUE UNABATED. THE PRESSURE IS ON, AND WHY NOT?

IF YOU FAIL TO MEET THE GOALS YOU HAVE SET, IF THE PUBLIC AND POLITICIANS PERCEIVE LESS THAN A GENUINE DESIRE TO REDUCE THE FINANCIAL PAIN OF GETTING WELL, THEN SUPPORT FOR THE CARTER CAP WILL GROW ACCORDINGLY. YOU HOLD THE POWER AND BEAR THE RESPONSIBILITY FOR AVOIDING SUCH ARBITRARY MEASURES.

AND, WHILE WE'RE TALKING ABOUT PUTTING BUSINESS IN ORDER, WE SHOULDN'T OVERLOOK GOVERNMENT'S OWN. THIS YEAR, I PLAN TO RE-INTRODUCE LEGISLATION WITH MY COLLEAGUE, SENATOR HERMAN TALMADGE, THAT WOULD DO JUST THAT. - AMONG OTHER THINGS, OUR BILL WOULD ADDRESS THE MAJOR PROBLEM OF MEDICARE AND MEDICAID REIMBURSEMENT PROVISIONS.



## MEDICARE AND MEDICAID

AS YOU KNOW, TYPICALLY, THE AMERICAN HOSPITAL RELIES UPON MEDICARE AND MEDICAID FOR APPROXIMATELY 40 PERCENT OF ITS OPERATING REVENUE. GIVEN THIS ECONOMIC FACT OF LIFE, ANY REVISION IN REIMBURSEMENT FORMULAS MUST BE CAREFULLY THOUGHT OUT, WITH SPECIAL PRECAUTION LEST IT CREATE UNDESIRABLE SIDE EFFECTS. AND THIS REFLECTS ONCE AGAIN ON MY OPPOSITION TO THE PRESIDENT'S ARBITRARY CAP ON HOSPITAL COSTS.

TAKE, FOR INSTANCE, ANY ARBITRARY PAYMENT POLICY THAT OVERLOOKS THE UNIQUE FISCAL NEEDS OF DIVERSE HOSPITALS. SUCH A POLICY COULD CAUSE CHAOS IN THE HOSPITAL SECTOR OF THE CAPITAL, CONSTRUCTION AND MEDICAL EQUIPMENT MARKETS. SUCH A POLICY MIGHT EVENTUALLY BECOME THE MOST IMPORTANT SINGLE FACTOR IN HOSPITAL ADMINISTRATION, EVEN MORE IMPORTANT THAN SOUND MEDICAL AND MANAGEMENT PRACTICES.

THAT'S WHY OUR BILL WOULD LINK MEDICARE AND MEDICAID PAYMENT RATES WITH THE EXPERIENCE OF SIMILAR HOSPITALS. NOT A SINGLE, NATIONWIDE STANDARD, BUT A MORE REALISTIC STANDARD, WOULD APPLY. HOSPITALS WHERE COSTS SUBSTANTIALLY EXCEED THOSE OF COMPARABLE INSTITUTIONS WOULD RECEIVE LESS THAN FULL COST REIMBURSEMENT. HOSPITALS THAT ARE COST-EFFICIENT WOULD HAVE INCENTIVES TO RECEIVE PAYMENTS ABOVE AND BEYOND ACTUAL COSTS.

ANOTHER PROVISION OF OUR BILL WOULD PERMIT HOSPITALS TO BE REIMBURSED FOR CAPITAL COSTS AND INCREASED OPERATING EXPENSES ASSOCIATED WITH CLOSING DOWN OR CONVERTING UNDER-UTILIZED BED CAPACITY OR SERVICES. SUCH PAYMENTS MIGHT NOT BE POSSIBLE UNDER THE CARTER CEILING.

OUR BILL IS NOT SET IN CONCRETE. IT IS OPEN TO REVISION AND WILL BENEFIT FROM IDEAS WHICH YOU AND OTHERS IN YOUR PROFESSION MAY HAVE. I INVITE YOU TO JOIN WITH ME IN THIS EFFORT, A FAR BETTER WAY TO CONTROL COSTS AND PROTECT OUR HEALTH CARE SYSTEMS THAN ANYTHING OFFERED THUS FAR BY THE ADMINISTRATION.



IN THE PAST, EVEN THE PRESIDENT HAS DESCRIBED HIS LIMIT AS TEMPORARY, TO BE REPLACED BY SOMETHING BETTER, SOMETHING HE HAS YET TO DEFINE. IMAGINE, IF YOU CAN, SWITCHING EVERY HOSPITAL IN AMERICA FROM OUR CURRENT CONTROL MECHANISMS TO A CARTER CAP FOR THREE TO FIVE YEARS, AND THEN TO YET ANOTHER, STILL UNDEFINED CONCEPT OF CONTROL, WHETHER IT'S THE ONE CONTAINED IN MY BILL OR ANOTHER.

#### NATIONAL HEALTH INSURANCE: WHEN AND HOW?

THE IDEA OF NATIONAL HEALTH INSURANCE IS INESCAPABLY LINKED WITH THE RISE IN HEALTH COSTS. THE COMBINATION OF NEW TECHNOLOGIES, MOUNTING LABOR AND PROFESSIONAL COSTS AND THE HEIGHTENED EXPECTATIONS OF THE AMERICAN PUBLIC REGARDING THE BENEFITS OF HEALTH CARE HAVE RESULTED IN A NEW CLAMOR FOR SOME FORM OF RELIABLE AND COST EFFECTIVE ALTERNATIVE TO THE PRESENT PATCHWORK OF PROGRAMS. IT IS A FACT THAT MILLIONS OF AMERICANS NOW HAVE UNMET MEDICAL NEEDS. IT IS ALSO A FACT THAT EXISTING PREPAYMENT PLANS SUFFER FROM GAPS OF COVERAGE, GAPS WHICH, IN THE EVENT OF CATASTROPHIC ILLNESS, CAN DESTROY THE FINANCIAL SECURITY OF EVEN UPPER MIDDLE INCOME FAMILIES. DEMOGRAPHICS POINT TOWARD AN AGING SOCIETY WHICH WILL PRESUMABLY REQUIRE EVEN MORE MEDICAL ATTENTION THAN IN THE PAST.

IF A SINGLE PRINCIPLE UNITES OUR THINKING, IT IS THIS:  
SLOGANS, HOWEVER APPEALING POLITICALLY, DO NOT ASSURE  
ADEQUATE HEALTH COVERAGE. PROMISES ARE CHEAPER THAN  
PERFORMANCE. HERE, AS ELSEWHERE, WHAT WE DO IS BOUNDED  
BY THE SHAPE OF THE AMERICAN ECONOMY. IN HEALTH CARE,  
AS IN ECONOMIC PLANNING, THE GUIDING PRINCIPLES SHOULD  
BE INDIVIDUAL FREEDOM AND PRACTICAL RESULTS.

A CONSENSUS IS WAITING TO BE FORMED. I ASK YOU TO  
TAKE THE LEAD IN FORMING THAT CONSENSUS, IN GUARANTEEING  
THAT WE PRESERVE THE BEST TRADITIONS OF HEALTH CARE  
IN AMERICA. I PLEDGE MY SUPPORT, AND MY FULLEST  
CO-OPERATION.