HEALTH INDUSTRY MANUFACTURER'S ASSOCIATION

SEPTEMBER 24, 1981

THERE'S AN OLD GERMAN PROVERB THAT SAYS, "IF A PATIENT DIES, THE DOCTOR KILLED HIM: IF HE GETS WELL, THE SAINTS CURED HIM." IF IT'S ANY CONSOLATION, POLITICIANS ARE ACCUSTOMED TO THE SAME ATTITUDE. WHEN YOU STOP TO THINK ABOUT IT POLITICIANS AND HEALTH CARE PROFESSIONALS HAVE A LOT IN COMMON. WE BOTH OPERATE BEHIND CLOSED DOORS, ON PATIENTS WHO HAVE VERY LITTLE TO SAY IN THE MATTER. WE'VE BOTH BEEN KNOWN TO PUT PEOPLE TO SLEEP - SOME WITH ETHER, SOME WITH ORATORY. WE BOTH GET CRITICIZED FOR OUR DIAGNOSES. WE'VE BOTH BEEN CRITICIZED FOR COSTING TOO MUCH. AND NEITHER OF US CAN AFFORD TO MAKE MISTAKES.

THESE DAYS, WE HAVE ONE MORE THING IN COMMON. BOTH OF US STAND AT THE THRESHOLD OF HISTORIC CHANGE. IN THE POLITICAL REALM, AMERICANS HAVE SIGNALED THEIR DESIRE TO TURN AWAY FROM

PAST POLICIES WHICH HAVE FAILED TO EXPAND THE ECONOMY OR COUNTER A GROWING THREAT FROM ABROAD. LEAD BY THE PRESIDENT, WE HAVE STORMED THE BARRICADES OF "BUSINESS AS USUAL" IN THIS CITY, WHERE DEFICIT SPENDING IS AS PERMANENT AS THE WASHINGTON MONUMENT, AND REAL LIFE RARELY PENETRATES.

IT HAS YET TO ATTRACT AS MUCH INTEREST AS BUDGET CUTS AND TAX INCENTIVES, BUT HEALTH CARE AND ITS FINANCING ARE BOUND TO ENGAGE WASHINGTON'S ATTENTION BEFORE THIS YEAR IS OUT.

## GOVERNMENT IN THE SICKROOM

TO MANY OBSERVERS OF YOUR FIELD, GOVERNMENT'S INCREASING ROLE IN HEALTH-RELATED MATTERS HAS BEEN THE MOST SIGNIFICANT DEVELOPMENT OF THE PAST DECADE. HEALTH CARE SERVICES HAVE BECOME ONE OF THE LARGEST SEGMENTS OF THE NATION'S ECONOMY. MEDICARE AND MEDICAID ALONE WILL COST FEDERAL AND STATE GOVERNMENTS MORE THAN $70 BILLION IN FISCAL YEAR 1982. IN THE PAST WE BEHAVED AS IF THERE WAS NO END TO THE AVAILABILITY OF HEALTH CARE DOLLARS. BUT THERE IS. EVEN IN THIS COUNTRY OF

MASSIVE RESOURCES WE HAVE FINALLY REACHED THE POINT WHERE THE PROVERBIAL FINANCIAL PIE CAN EXPAND NO LONGER. OUR CURRENT FISCAL CRISIS IS FORCING US TO RE-EXAMINE OUR HEALTH DELIVERY SYSTEM.

THE PROBLEM BECOMES EVEN MORE PRESSING WHEN YOU LOOK DOWN THE ROAD, TO A NATION WITH AGING DEMOGRAPHICS, AND A MEDICARE TRUST FUND THREATENED WITH EXHAUSTION A DECADE FROM NOW.

HERE, AS IN THE SOCIAL SECURITY SYSTEM, AMERICANS CONFRONT PAINFUL CHOICES. BUT HERE, UNLIKE SOCIAL SECURITY, THOSE CHOICES INCLUDE COMPETITION AS A LONGRANGE ALTERNATIVE TO DISASTER.

## BALANCING THE BUDGET

IN THE SHORT RANGE, IT'S SAFE TO SAY THAT FEDERAL HEALTH PROGRAMS - WHICH MAKE UP ABOUT ONE-SEVENTH OF ALL NON-MILITARY SPENDING - WILL CONTINUE TO BE A HIGHLY VISIBLE TARGET. SKEPTI-

CISM IS IN ABUNDANT SUPPLY THESE DAYS ON CAPITAL HILL. AND WHY NOT, WHEN YOU LOOK AT FEDERAL SOCIAL WELFARE PROGRAMS, WHICH INCREASED 313% DURING THE SEVENTIES. CONGRESS HAS ALREADY LOPPED OFF $1.6 BILLION FROM MEDICARE SPENDING. IN AN EVEN MORE INTENSE BATTLE, THE SENATE FINANCE COMMITTEE ADOPTED A 9% CAP ON MEDICAID EXPENDITURES, BEFORE THE SENATE AND HOUSE COMPROMISED ON A PLAN OF ANNUAL REDUCTIONS IN FEDERAL MATCHING PAYMENTS TO THE STATES.

AT THE SAME TIME, WE VOTED TO GIVE STATES MORE FLEXIBILITY IN THEIR OWN ADMINISTRATION OF THE PROGRAM - WITH RESPECT TO HOSPITAL REIMBURSEMENT, CONTRACTING WITH HMO'S, COMPETITIVE BIDDING FOR LAB SERVICES AND MEDICAL DEVICES, AND THEIR OWN MEDICALLY NEEDY PROGRAMS.

NOW, HAVING GONE THROUGH IT, I CAN ASSURE YOU THAT THE BUDGET RECONCILIATION PROCESS IS NOT THE BEST TIME FOR THOUGHTFUL,

CAREFUL ANALYSIS OF ISSUES. THE WHOLE PROCEDURE MAY BE MISNAMED - ESPECIALLY THIS YEAR, WHEN THE ONLY THING MOST CONGRESSMEN COULD RECONCILE WAS THE HARD, COLD FACT OF SUBSTANTIAL REDUCTIONS IN SPENDING TO MATCH TAX CUTS OF HISTORIC PROPORTION.

WITH DICK SCHWEIKER AT HHS, DAVE STOCKMAN AT OMB, AND AN ADMINISTRATION FRIENDLY TO THE CONCEPT IN POWER, A LOT OF PEOPLE EXPECTED TO SEE A BILL PASSED BY NOW EMBODYING COMPETITION AS THE BEST WAY TO HOLD DOWN ESCALATING HEALTH COSTS. AS YOU NO DOUBT KNOW, THE YEAR'S AGENDA HAS FOCUSED ALMOST EXCLUSIVELY ON THE LARGER ECONOMY. THIS DOESN'T MEAN WE HAVE LOST INTEREST IN COMPETITION: IF THAT WAS SO, I WOULDN'T BE HERE TODAY.

QUESTIONS MUST BE ASKED BEFORE IDEAS BECOME LAWS. DEBATE PRECEDES DECISION - AND IT IS IN THAT SPIRIT THAT I NOTE YOUR OWN ORGANIZATION'S COMMITMENT TO THE COMPETITIVE ETHIC.

## COMPETITION: DEFINING HEALTH CARE

ALL OF US IN BUSINESS, LABOR AND POLITICS LIKE TO THINK WE UNDERSTAND THE MEANING OF "COMPETITION" AS IT APPLIES TO THE HEALTH CARE INDUSTRY. BUT DO WE? THERE IS A TENDENCY, I THINK, TO VIEW COMPETITION IN THE SAME CONTEXT AS THE GENERAL ECONOMY.

ONE DOESN'T HAVE TO SEARCH VERY FAR TO REALIZE THE INACCURACY OF THAT ASSUMPTION. OTHERWISE, WHY WOULD INSURANCE COMPANIES HAVE AN ADVERTISING BUDGET TO ATTRACT EMPLOYEES INTO THEIR PLANS? OR INDUSTRY HEALTH PLANS DEVOTE CONSIDERABLE RESOURCES TO TELEVISION RECRUITMENT OF NEW MEMBERS HERE IN WASHINGTON AND ELSEWHERE?

THE TRUTH IS - THERE'S PLENTY OF COMPETITION IN THE HEALTH INDUSTRY TODAY, BUT IT JUST DOESN'T EXPRESS ITSELF IN THE SAME CLASSIC SENSE AS IN MANUFACTURING, AGRICULTURE OR OTHER SECTORS

OF THE ECONOMY. AND IN ADVOCATING STILL MORE COMPETITION, ONE HAS TO GUARD AGAINST THOSE WHO WOULD RESTRUCTURE THE MEDICAL INDUSTRY ALONG JUST THOSE TRADITIONAL ECONOMIC PATTERNS.

MY OWN VIEW ON COMPETITION IS VERY SIMILAR TO THAT WHICH I'VE HAD FOR YEARS RELATIVE TO COMPREHENSIVE NATIONAL HEALTH INSURANCE: THAT WE SHOULD BUILD UPON, RATHER THAN ABANDON, OUR CURRENT SYSTEM -- KEEPING WHAT IS GOOD AND STRESSING PRIVATE SECTOR INVOLVEMENT. THIS IS WHY I'VE URGED FOR YEARS ADOPTION OF A CATASTROPHIC HEALTH INSURANCE PLAN - ADDRESSING THE REAL PROBLEM WITHOUT SADDLING MEDICINE WITH A HOST OF EXPENSIVE, SELF-DESTRUCTIVE GOOD INTENTIONS CARE OF WASHINGTON, D. C.

## GENERALS AND SPECIFICS

WHATEVER THE SPECIFICS OF COMPETITION PLANS, EVERYONE SEEMS AGREED ON SEVERAL BASIC PRINCIPLES.

1. INDIVIDUALS MUST BE GIVEN A CHOICE OF QUALIFIED HEALTH CARE PLANS, WITH REWARDS FOR COST-EFFECTIVE SHOPPING.

2. THERE SHOULD BE IDENTIFIABLE AND FIXED SUBSIDIES FOR SUCH PLANS, WHETHER FROM AN EMPLOYER, MEDICARE OR MEDICAID OR UNDER THE TAX LAWS AND PERSONS WHO CHOOSE MORE COSTLY COVERAGE SHOULD HAVE TO PAY THE EXTRA COST THEMSELVES.

3. THERE SHOULD BE A UNIFORM SET OF RULES SUCH AS THOSE GOVERNING MINIMUM BENEFITS, PREMIUM-SETTING PRACTICES, AND SO FORTH, FOR ALL HEALTH PLANS.

4. AND PHYSICIANS AND OTHER HEALTH CARE PROVIDERS WOULD BE ENCOURAGED TO JOIN TOGETHER IN ECONOMIC UNITS THAT COULD COMPETE TO OFFER QUALITY HEALTH SERVICE AT THE MOST COMPETITIVE PRICE.

THESE CONCEPTS HAVE ENLISTED THE SUPPORT OF SOME POWERFUL ADVOCATES: EVERYONE FROM JIM JONES AND PHIL GRAMM IN THE HOUSE,

TO MY COLLEAGUES DAVE DURENBURGER AND ORIN HATCH, TO SECRETARY SCHWEIKER, DAVE STOCKMAN AT OMB AND THE WHITE HOUSE ITSELF.

SO WHY HASN'T ALL THIS GOOD WILL BEEN TRANSLATED INTO A COMPETITION BILL?

IN THE END, HEALTH POLICY IS ESTABLISHED IN THE POLITICAL ARENA AND THE MOST INTERESTING FACT TO ME ABOUT THE PRO-COMPETITION BILLS THUS FAR IS THAT THEIR PRIMARY SUPPORT COMES FROM GOVERNMENT LEADERS AND ACADEMIC CIRCLES. PROVIDERS, INSURERS, EMPLOYERS UNIONS AND CONSUMER GROUPS HAVE ALL EXPRESSED VARYING DEGREES OF OPPOSITION OR SKEPTICISM.

GOVERNMENT SUPPORTERS SEEM ATTRACTED TO THE IDEA BECAUSE OF THE PROMISE OF COST CONTAINMENT IN PUBLIC PROGRAMS. SETTING A TAX CAP FOR EXCLUDABLE PREMIUM PAYMENTS WILL INCREASE GOVERNMENT REVENUES OVER TIME. PUTTING AN ANNUAL LIMIT ON THE FUNDS AVAILABLE TO PURCHASE HEALTH SERVICES UNDER MEDICARE AND MEDICAID WILL REDUCE THE NEAR RUN-AWAY INCREASES IN THOSE PROGRAMS.

THAT'S NOT AN UNATTRACTIVE OPTION, I ASSURE YOU.

FROM THE ACADEMIC PERSPECTIVE -- THE FREE MARKET ECONOMISTS -- THESE PROPOSALS OFFER THE OPPORTUNITY TO SUBSTITUTE THE DISCIPLINES OF THE MARKET FOR GOVERNMENT REGULATIONS AND RATIONING. IT'S 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. THESE ECONOMISTS BELIEVE 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. THE THEORY SHOULD BE PUT TO PRACTICAL APPLICATION, THEY ARGUE - PARTICULARLY SINCE THE PRESENT SYSTEM IS OVERBURDENED WITH COMPLICATED AND COSTLY REGULATORY CONTROLS.

ON THE OTHER SIDE, WE FIND MOST OF THE HEALTH CARE INDUSTRY,

INSURANCE COMPANIES, BUSINESS AND LABOR, AND BENEFICIARY GROUPS. MOST PROVIDERS I'VE TALKED WITH ARE AMBIVALENT. ON THE ONE HAND, THEY 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 WON ABILITY TO RAISE THE CAPITAL NECESSARY FOR SUCCESSFUL COMPETITION. SO FAR THE ADVOCATES OF COMPETITION HAVE NOT BEEN ABLE TO DISPELL THESE FEARS COMPLETELY.

BUSINESS IS PHILOSOPHICALLY IN TUNE WITH THESE PROPOSALS. BUT IT OBJECTS TO STATUTORY INTRUSIONS INTO EMPLOYMENT FRINGE BENEFITS. LABOR UNIONS HAVE VIEWED HEALTH INSURANCE BENEFITS AS AN IMPORTANT BARGAINING ISSUE WHICH HAS GIVEN THEIR MEMBERS SIGNIFICANT NON-TAXABLE BENEFITS. AND BOTH BUSINESS AND LABOR OPERATE INSURANCE PLANS WHICH COULD BE JEOPARDIZED BY SOME ASPECTS OF THE COMPETITION BILLS.

FINALLY, THE BENEFICIARY GROUPS THEMSELVES ARE ALARMED BY WHAT THEY PERCEIVE AS THE END TO THE ENTITLEMENT FEATURES OF MEDICARE AND MEDICAID. THEY HAVE YET TO BE CONVINCED THAT SUFFICIENT NEW RESOURCES WILL BE CREATED THROUGH A MORE EFFICIENT DELIVERY SYSTEM AND CURTAILMENT OF GOVERNMENT REGULATION. THEY HAVE YET TO BE PERSUADED THAT THEIR OWN ACCESS WILL BE SAFEGUARDED. THEY FEAR ELIGIBILITY CUT-BACKS, BENEFIT LIMITS, AND INCREASED COST-SHARING.

AT FIRST BLUSH IT APPEARS THAT THE COMPETITION PROPOSALS HAVE NO CHANCE OF ACCEPTANCE. I DISAGREE. WHILE NO SINGLE BILL AS INTRODUCED WILL PASS UNCHANGED INTO THE STATUTE BOOKS, SOME PRELIMINARY STEPS ARE LIKELY. A LOT OF ATTENTION IS BEING GIVEN TO EXPANDING EXPERIMENTS NOW IN PROGRESS WITH MEDICARE BENEFICIARIES AND HMOs. CASHING OUT THE VALUE OF THE MEDICARE BENEFIT

PACKAGE AND ALLOWING BENEFICIARIES TO PURCHASE EQUIVALENT PRIVATE COVERAGE, WHETHER HMO OR NOT, SEEMS ONE LIKELY ROUTE. A SECOND STAGE MIGHT BE SOME MODIFICATION OF THE TAX TREATMENT OF HEALTH INSURANCE PREMIUMS - INCLUDING BOTH A CAP ON TAX-EXEMPT PREMIUMS AND STANDARDS FOR INSURANCE PLANS TO QUALIFY FOR TAX EXCLUSION OF PREMIUMS. IN ADDITION, CHANGES IN THE MEDICAID PROGRAM RECENTLY AGREED TO IN THE RECONCILIATION BILL PROMISE INCREASED STATE EXPERIMENTATION.

THERE ARE SEVERAL CAVEATS WHICH NEED TO BE INTRODUCED AT THIS POINT. IN THE FIRST PLACE, DESIGNING AND GETTING THROUGH THE CONGRESS ANY MAJOR PIECE OF LEGISLATION, ESPECIALLY ONE EMBODYING SIGNIFICANT DEPARTURES FROM TRADITIONAL PRACTICES, IS NO PICNIC. ACHIEVING A CONSENSUS AMONG THE VARIOUS CENTERS OF POWER WITHIN CONGRESS -- AT LEAST FOUR MAJOR COMMITTEES -- AND THE VARIOUS

ORGANIZED INTERESTS REMAINS A FORMIDABLE TASK, EVEN FOR A VERY POPULAR CHIEF EXECUTIVE.

SECONDLY, LEGISLATION OF THIS TYPE TAKES TIME TO IMPLEMENT. NOT LONG AGO, I ASKED MY STAFF TO LOOK OVER THESE PROPOSALS FROM THE REGULATORY POINT OF VIEW: WHAT NEW OR EXPANDED TYPES OF REGULATION WOULD BE NECESSARY TO CARRY OUT THE INTENT AND THE LETTER OF THESE BILLS. FOR SOLUTIONS DEVOTED TO FREE MARKET ECONOMICS, YOU'D BE SURPRISED AT HOW MUCH FEDERAL OVERSIGHT WOULD BE REQUIRED. ALL OF THIS WOULD TAKE TIME TO WRITE, TO PROPOSE AND TO CARRY OUT. THE REFORMS THEMSELVES MIGHT NOT BE OPERATIONAL UNTIL SEVERAL YEARS AFTER ENACTMENT.

THIRD, THE EFFECT OF THE COMPETITION PROPOSALS COULD, IN FACT, BE TO RAISE THE LEVEL OF FEDERAL EXPENDITURES, PARTICULARLY IN THE SHORT RUN. WHY? BECUASE OF SOME BENEFIT IMPROVEMENTS

AND BECAUSE OF THE POTENTIAL FOR TOTAL HEALTH SPENDING TO RISE AS A RESULT OF DECISIONS IN THE MARKETPLACE. I HAVE YET TO SEE ANY REAL EVIDENCE THAT INDIVIDUAL HEALTH CARE PURCHASING DECISIONS WILL BE RADICALLY DIFFERENT FROM THE DECISIONS NOW MADE BY THIRD PARTIES.

## THE SEARCH FOR CONSENSUS

THERE IS NO QUESTION THAT THE 1980 ELECTION HAS VASTLY INCREASED THE STOCK OF THE PRO-COMPETITION ELEMENTS. WE SEE IT MORE AND MORE FREQUENTLY IN THE RECOMMENDATIONS OF THE NEW ADMINISTRATION'S POLICY TASK FORCES. WE SENSE IT IN PRESIDENT REAGAN'S OWN PRONOUNCEMENTS ABOUT THE DIRECTION OF HIS PRESIDENCY. IRONICALLY, THIS MEANS THAT THE BURDEN IS GOING TO BE GREATER THAN EVER ON THOSE OF YOU WHO ARE MOST KNOWLEDGEABLE ABOUT HEALTH ECONOMICS TO ARTICULATE BOTH THE POSITIVE EFFECTS AND THE POSSIBLE SHORTCOMINGS OF THE NEW SYSTEM THAT IS BEING PROPOSED.

YOU KNOW, IT'S BEEN SAID THAT WASHINGTON HAS ITS OWN VERSION OF THE GOLDEN RULE -- WHOEVER HAS THE GOLD, MAKES THE RULES. TOO OFTEN, THAT IS THE CASE. TOO OFTEN, WE GET CAUGHT UP IN TEMPORARY CONTROVERSIES AT THE EXPENSE OF ADDRESSING LONG-TERM PROBLEMS. TOO OFTEN, WE PROPOSE SOLUTIONS WITHOUT SUFFICIENT RESPECT FOR THE REAL EXPERTS. I DON'T WANT THAT FATE TO BEFALL COMPETITION. FOR ALL THE QUESTIONS I HAVE RAISED TODAY, IT STILL STRIKES ME AS TOO PROMISING A PATH TO RUSH DOWN HELTER - SKELTER.

I SUGGEST THAT YOU RAISE YOUR OWN VOICES AND CONTRIBUTE YOUR OWN EXPERTISE IN CHARTING THE FUTURE COURSE OF HEALTH CARE IN AMERICA. I CAN PROMISE YOU AN OPEN DOOR TO THE FINANCE COMMITTEE, AND FOR MY PART, AN OPEN MIND TO MATCH. DIFFERENCES IN OPINION ARE THE LIFEBLOOD OF OUR SYSTEM. ONLY INDIFFERENCE IS INTOLERABLE. I LOOK FORWARD TO HEARING YOUR OPINIONS AND NARROWING

WHATEVER DIFFERENCES WE MAY HAVE. MOST OF ALL, I LOOK FORWARD TO A TIME WHEN COMPETITION EXISTS EVERYWHERE EXCEPT BETWEEN THE BOARDROOM AND THE COMMITTEE ROOM.