OUTLINE OF REMARKS

AMERICAN GROUP PRACTICE ASSOCIATION

April 30, 1982 - Hyatt Regency Hotel - Wash D.C.

I. THE ECONOMIC RECOVERY PROGRAM

A. Sticking to the Fundamentals

1. Concerns about threatened deficits are very real and are justified. But they are not a consequence of the Reagan program, which is fundamentally sound--we must follow through on its principles of spending reduction, lower taxes to restore economic incentive, a firm but fair monetary policy, and a strong defense.

2. We can act to cut the deficit without undermining the recovery program or putting additional 'drag' on the economy during the recession. We are aiming at sustaining recovery after the recession: that is what the debate is all about.

3. There are positive signs in the economy. Inflation in 1981 dropped to 8.9%, the lowest since 1977. In February and March producer prices dropped for the first time in 6 years, and the CPI rose at only an annualized 3.6% rate in the first quarter, the lowest rate since 1972.

4. Furthermore, while interest rates remain much too high, they have come down. 16 1/2% is better than 21%. Most projections now show a continuing, but erratic, downward trend in rates during 1982. That trend must be sustained by cooperation between the President and Congress to demonstrate a consistent, steady course--the will to keep spending under control--and by keeping in place the tax changes that encourage savings, work, and investment.

B. The Recession

1. The recession is the reason why we need to make adjustments: it has driven down revenues and driven

up spending, while lower inflation has the immediate effect of cutting revenues but a lagging effect on moderating spending.

2. There are two aspects to the downturn: first, the Carter administration tried to prime the pump in 1980 after experimenting with monetary restraint--the subsequent clampdown proved that the 'recovery' from that recession was a false one. Only now are the full effects of the (resumed) 1980 recession being felt.

   This time around we must have a real, sustained recovery.

3. Compounding our difficulties are long-term problems in autos and housing, partly induced by the rampant inflation of recent years and partly due to inconsistent policies on energy, taxes and productivity. The Reagan administration is working full time to deal with these underlying problems, and progress is being made. We are seeing hard bargaining between labor and management in the auto industry that bode well for a more rational industrial policy.

4. Major shifts in policy are bound to bring instability and uncertainty as we make the transition--particularly when we are moving out of a period of double-digit inflation. But we must make the transition, for the only alternative is inflation and stagnation. We must improve our chances for stable growth by acting swiftly to control projected deficits.

II. Time is Short

A. Congress

1. Congress cannot evade the fact that it is the source of the main problem--the uncontrolled growth of Federal spending in recent years. That spending

momentum, aggravated by inflation and recession, is the cause of the expected deficits.

2. The deficit problem must be dealt with right away, and there are not that many opportunities to do it. At the outside we must enact a deficit-reduction package by the time we are obliged once again to raise the debt ceiling. That means we must act by summer, before the political season brings us to a stalemate.

3. Unfortunately the President and the Speaker were not able to reach any agreement. So the full responsibility for resolving the issue now falls upon the Congress. I believe our package must tackle <u>all</u> aspects of the budget problem: appropriations, entitlements, defense, and revenues. A deficit reduction package must be balanced, and it must be fair.

4. Congress does have an obligation to suggest concrete alteratives if it does not want the President's budget. I would hope that we will be able to reach bipartisan agreement, and in time, bring the President and the Speaker along.

B. <u>The President</u>

1. The President has sent us a 1983 budget that, while it advances his goals in a realistic manner, was less realistic about the prospects in Congress, and it is open to the charge that it does not share the burden of deficit reduction in an equitable way.

2. Even those who disagree with the President must admit that we need to reduce the deficit by at <u>least</u> as much as the President recommends: over $40 billion in spending cuts and management changes in FY 1983, and over $30 billion additional revenue over two years.

3. The President is a realistic man--he must realize that he will have to deal with Congress if we are to get action on the deficit. He is right to stress firmness on the fundamentals of his program. But

there are many ways to increase revenues, deal with entitlements and appropriations, and moderate defense spending without sacrificing those fundamentals. There is a margin for compromise available, but it must be taken advantage of before it disappears.

III. POLICY OPTIONS

A. Basic Principles

1. There are many ways we can attack the deficit problem, but there is no way to do it unless we have some parameters--some guidelines. The sooner we narrow the range of options, the better.

2. One thing we must not do is allow the need for some revenue increases to be an excuse to uncork the spending bottle. Too often Congress has shown deficits are not cut by tax increases, because Congress always spends more. That cannot be allowed to happen.

3. Along the same lines, the individual tax cut ought to be out of bounds: it is mainly an offset for bracket creep in any event, and we do not need to continue to resort to the inflation tax as a budget device.

4. Defense spending must increase, but perhaps it can increase at a slower pace, by balancing our most urgent defense need against long-term priorities.

5. Spending must be brought down--there is no other way to get a handle on the deficit. That means entitlements and so-called uncontrollables have to play a role.

B. Revenues

1. There are several ways to proceed: the President proposed management changes, user fees, and some

loophole closings. All of those will play a role, and they should in the interest of ensuring everyone pays a fair share of taxes.

2. Likely candidates for action include corporate and individual minimum taxes, reductions in the safe-harbor leasing provision of the 1981 tax act, and efforts to narrow the compliance gap in the income tax--as in the Dole-Grassley bill, S. 2198.

3. Another option, consistent with the goals of individual rate reductions enacted last year, would be to accelerate tax indexing to July 1, 1983, in place of the 1983 rate cut. Lower inflation means less rate reduction than we anticipated is needed to offset bracket creep. If the inflation trend continues, this option could bring marginal rates to about where they were expected to be when we passed the tax bill, yet raise about $17 billion over two years.

4. Some have suggested new taxes on energy. Proposals include taxes or fees on imported oil, or all oil. Other ideas include a tax on all energy sources or on gasoline. At this time, no consensus exists on any energy tax proposal.

C. Entitlements and Social Programs

1. Reform of basic entitlement programs will be necessary to hold the budget in line. Administration proposals in the 1983 budget would save about $52 billion over 3 years. Finance Committee will try to work with administration to reach agreement.

2. Some reconciliation savings already made in these areas for fiscal year 82:

AFDC	$1.1 billion
SSI	107.0 million
Unemployment Compensation	786.0 million

Title XX Social Services	700.0 million
Medicare	1.4 billion
Medicaid	944.0 million

3. Between 1970 and 1981, entitlements other than social security rose 412%.

IV. POSSIBLE 1983 CHANGES IN SOCIAL PROGRAMS

A. Social Security

1. We have restored the minimum benefit and authorized temporary interfund borrowing. Now the President's Task Force, chaired by Alan Greenspan, is preparing to address the long-term problems of social security. Some action may be necessary before the Task Force completes its work.

2. Only if the economy performs considerably better than in the past 5 years could social security remain solvent beyond 1984 or 1985. Even then:

   - Under the most recent projections by the Social Security Board of Trustees, the combined reserves of the system fall dangerously low (below 14 percent of outlays) in 1985. The system would be unable to pay benefits beyond 1987 (when reserves fall below 9 percent of outlays).

   - Under more pessimistic economic assumptions -- more like recent experience -- social security would be broke by late 1983.

3. The trust funds already are seriously depleted -- reserves equal 23 percent of outlays or barely 2 to 3 months' worth of benefit payments. The history of the trust funds indicates that reserves equal to 100 percent or more were the norm prior to 1970.

4. Further tax increases, beyond those legislated in 1977, are not the solution. The long-term cost of social security must be brought into line with taxpayers' willingness and ability to pay for it.

B. Health Programs

1. General Comments

a. 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.

b. Health care expenditures 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.

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

d. The original cost estimates for the medicare hospital insurance program did not anticipate the extraordinary cost increases the program would face:

Hospital Insurance Benefit Cost Projections	Estimate of Costs		
	1970	1975	1990
Actuarial Estimate Made in 1965	3.1B	4.3B	8.8B
Actuarial Estimate Made in 1967	4.4B	5.8B	10.8B
Current Estimate (1981)	5.3*B	11.6*B	103.0B

* Actual program costs

2. Medicare

Est. FY1983 expenditures: $58 billion

a. Hospital Reimbursement

1. It is clear that reform is long overdue in the way we pay hospitals. Our current methods provide no incentives for efficiency and continue to encourage inappropriate utilization of institutional services.

2. The Administration proposal for a 2% cut across the board is not likely to receive much support because it fails to differentiate between the efficient and the inefficient. It also fails to offer any long-term reform.

3. Work is being done on a prospective payment system which would follow some short term changes in the 223 limits. The American Hospital Association's recent contribution to this discussion is much appreciated -- and will be given serious consideration.

b. Physician Reimbursement

1. All groups, including physicians, must help bear the burden of reductions in medicare spending. The Administration's proposals reflect this attitude and do include a number of changes related to physician reimbursement. I believe changes can be made which will not discourage physicians from caring for medicare patients.

c. Patient Cost Sharing

1. Reasonable proposals for changes in the current medicare cost sharing arrangements should be considered. However, it is certainly not our intention to require elderly individuals, many of whom are on fixed budgets, to bear the burden of substantial out of pocket costs.

3. Medicaid

Est. FY 1983 Federal Expenditures: $20 billion

a. In regard to the federalization issue, the specifics are not known at this time. The massive reshuffling of Medicaid and other programs is a complex undertaking. Questions such as uniform eligibility and benefits will have to be addressed. Of course, no governor or member of Congress will want their State to get less than under the current program. And if you have a Federal program all States will want an equal share. The end result could be costly. It is vital that needy Americans continue to receive essential service and assistance.

4. Competition

a. 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.

b. One 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.

c. 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.

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

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

f. 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. For example, the so-called tax cap may have a chance.

5. Tax Cap (Health Insurance Exclusion Cap)

a. Proposal - Under present law, an employee is not taxed on compensation paid him in the form of employer-paid health or accident insurance premiums or direct payments for injuries or sickness. This exclusion could be capped at a certain amount per month per family. Emlployer contributions over that amount would be included in income like any other form of compensation.

b. Talking Points

1) Permitting some benefits, like health insurance, to go untaxed while other direct compensation and benefits are taxed, induces an artificially high demand for the tax-free benefit.

2) Creating an artificial demand for health care can increase overall health care costs.

3) Employer-paid, term life insurance premiums are already taxed above a certain level (premiums required for a $50,000 policy); why should health insurance enjoy any different treatment?

V. SUMMARY--WHERE WE ARE NOW

A. A Watershed Year. The recession makes this a tough year for Congress and the President. There are no easy or palatable options available. That means we have to establish our priorities swiftly but with care: not an easy task. But if we show tht we can work together to deal now with problems that have been building over many years, we will have a major breakthrough in favor of economic recovery.

B. Shared Effort. The economic problem can only be addressed by a joint effort all around--Congress and the President, Democrats and Republicans. Those who would seek partisan advantage from our economic dilemma are mistaken. If we hang, we all hang together, regardless of party. The people will not care who prevented action, if nothing is done. What we need are results.