Council of Economic Advisers analysis

Obama health care overhaul based on cost-cutting and deficit reduction

Kate Randall
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Appearing on conservative talk-show host Michael Smerconish's radio program last week, Barack Obama listed his priorities for new health care legislation. His top two points center on cutting costs. "Number one, it's got to be deficit neutral.... Point number two, it has to bend the cost curve," he said.

Obama has consistently stressed that his primary concern in restructuring the US health system is to trim costs—not to provide quality, universal health care for all. There is to be no challenge to the profit interests of the giant insurance companies and pharmaceutical firms. In its latest capitulation to these interests earlier this month, the administration dropped its insistence that a "public option" be included in the health care exchange it proposes.

A report released in June by the Council of Economic Advisers (CEA), a White House advisory body, provides an overview of the economic foundations of Obama's health care proposals. The analysis focuses on the sharp growth of health care costs and the dangers posed to the federal budget deficit, and the necessity to slash costs by reducing "inefficiencies" in the current delivery of health care.

A review of the report, which has received little media attention, is valuable in understanding the economic fundamentals motivating the various health care proposals working their way through Congress. As always, a certain amount of de-coding is required.

The overarching concern is curtailing government spending. The report states, "Slowing the growth rate of health care costs will prevent disastrous increases in the federal budget deficit."

According to the CEA analysis, health care expenditures currently account for about 18 percent of gross domestic product. If nothing is done to cut spending, the authors argue, health care costs are projected to reach 34 percent of GDP by 2040.

The council estimates, "Real person spending on health care has been increasing rapidly, rising over 40 percent in the past decade alone." They predict that slowing the annual growth rate of health care costs by 1.5 percent would increase real GDP by over 2 percent in 2020 and nearly 8 percent in 2030.

The report notes the "dire implications" posed to government budgets by health care costs. In particular, they bemoan predictions that federal and state spending on the Medicare and Medicaid programs—the entitlement programs for the elderly, disabled and poor—will rise to 15 percent of GDP by 2040 if nothing is done to contain costs.

Citing the disparity in cost outlays for Medicare between US states, the report notes that the states with higher spending make greater use of "supply-sensitive services"—more services in an inpatient setting, higher rates of minor procedures, and greater use of medical specialists.

In one of its major findings—with vast implications for patient care—they argue these differences in spending between states "suggest that nearly 30 percent of Medicare's costs could be saved without adverse health consequences," and that this should be possible "without worsening outcomes."

One of Obama's major health care proposals is to slash $600 billion from the Medicare and Medicaid programs, which he claims can be done without affecting the quality of health care.

However, nowhere in the report is to be found any

mention of the huge profits reaped by the insurance and pharmaceutical companies or the high salaries paid out to their CEOs. There is only a vague reference to the bureaucratic inefficiency inherent in the present private, for-profit system: “Our system is complex, and we have high administrative costs.”

The report does note, however, the surge in annual insurance premiums for family coverage obtained through an employer, which grew from $6,462 in 1996 to $11,941 in 2006, an 85 percent increase in real terms. The majority of these increases are passed on to employees, either through an increased share of the premium, or in reductions in wages or other compensation.

The experience in the state of Massachusetts, which adopted mandated health insurance in 2006, is instructive in this regard as the Obama proposals have been closely tailored to this plan. A new report by the Commonwealth Fund, a non-profit health care foundation, showed that the average family premium offered by employers in Massachusetts was $13,788, the nation’s highest.

According to this experience, under the “individual mandate” proposed by Obama—in which individuals and families will be forced to purchase coverage in the insurance “exchange” or in health care “cooperatives”—premiums can be expected similarly to rise.

Under the subheading “Sources of Inefficiency in the Health Care Delivery System,” the CEA takes aim at what it considers unnecessary, superfluous expenditures. In one bulleted point they note, “We spend a substantial amount on high cost, low-value treatments.”

They particularly criticize fee-for-service payment systems, in which doctors and hospitals are reimbursed for each patient visit or procedure. They write, “[I]n general payment systems do not reward higher quality and value,” as well as encourage health care providers to administer “unnecessary care.”

They also decry what they term “defensive medicine,” where some physicians “supply additional services that are of marginal or no medical value, including additional diagnostic tests and unnecessary referrals to specialists.” Precisely who is to determine what care and referrals are “unnecessary” they do not say.

Fee-for-service payment systems are one of the main targets of Obama’s health care overhaul. He advocates replacing it with a “global payments” system, in which health care providers would be given a flat rate for services provided in a given period of time. This would impose dollar limits on medical services for the majority of working families, resulting in a rationing of care.

The report goes on to argue that successful “reform” of the health care system requires a number of “game changers,” one of which is “[r]eorienting the financial incentives of providers toward value rather than volume.”

“One potential way to increase efficiency,” they write, “is to facilitate the development of a set of performance measures that all providers would adopt and report.” Obama has adopted this recommendation by pushing for the establishment of a Medicare Advisory Council with the power to determine how much the program for the elderly and disabled pays hospitals for services.

Such a policy would serve to turn the Medicare program into a cut-rate system, providing substandard care for retired workers and the poor. Elimination of fee-for-service payments throughout the health care system would inevitably result in reduced care and inferior medical services for the vast majority of Americans.

Of course, the great unspoken in the Council of Economic Advisors analysis—as in the health care “debate” in Washington overall—is that the provision of quality health care as a basic human right is incompatible with a system where it is administered based on private profit, and where the entire political establishment is beholden to the financial elite profiting from it.

Socialized medicine—administered by a government controlled by working people—is the only basis for providing truly universal health care. This requires a political struggle against the capitalist profit system and the Democrats and Republicans, the big business parties that defend it.