

HEALTH SPENDING AND THE FEDERAL BUDGET
Is Health Spending the Culprit?
What's There to Do?

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We will be hearing on this issue from a stellar panel of experts, to wit, our friends and colleagues:

- 1. Paul Ginsburg, President, Center for Studying Health Systems Change**
- 2. Stuart Guterman, Vice President, Commonwealth Fund**
- 3. G. William Hoagland, Vice President, CIGNA**
- 4. Henry Aaron, Senior Fellow, Economic Studies, Brookings Institution**

Originally Joe Antos of the AEI was supposed to join us as well, but quite mysteriously, he had to renege to fly to Asia.

Joe Antos, in Indonesian disguise, on a secret mission to South East Asia.



Lt.Cmdr. Stuart Altman, Team 6, US-DHHS, blending in with the locals of Waziristan.



If a Martian were sent to Earth there to diagnose what's ailing the *The Greatest Country on Earth*[®], this is what the creature would report back to Mars:

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Translated (by Doug Elmendorf) from Martian to English, it means the following:



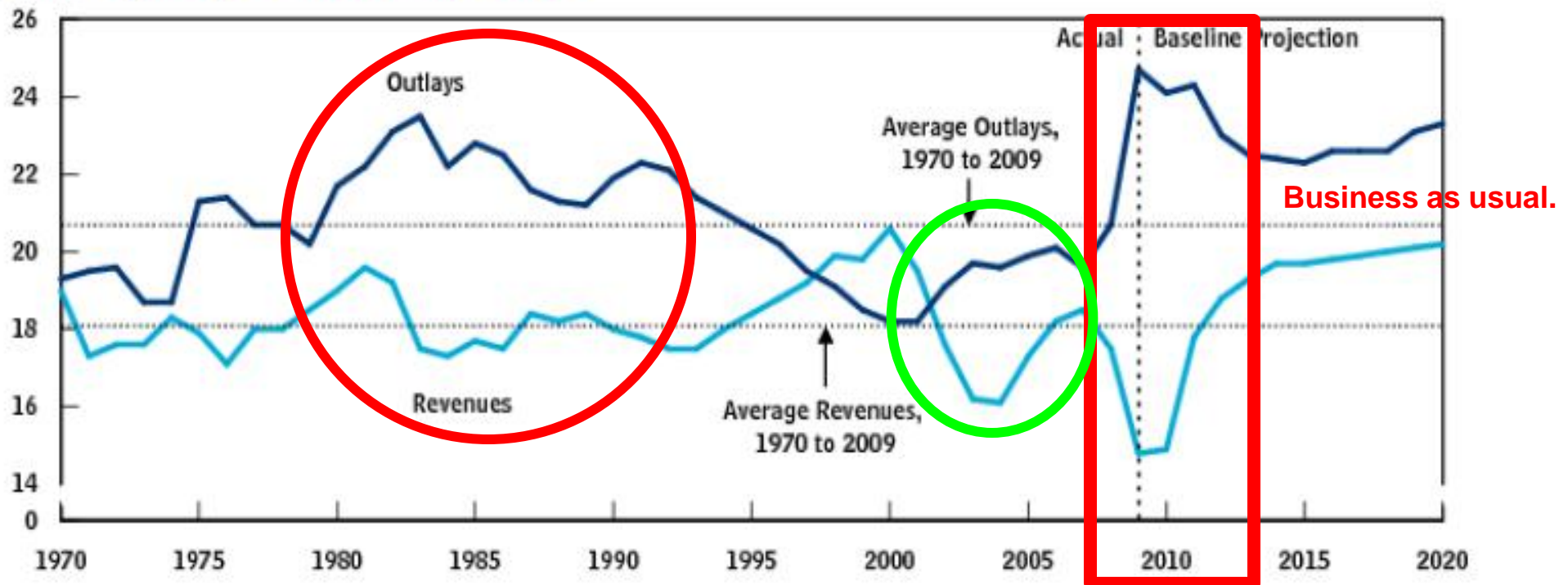
Changing Course in U.S. Fiscal Policy

- The United States faces a fundamental disconnect between the services that people expect the government to provide, particularly in the form of benefits for older Americans, and the tax revenues that people are willing to send to the government to finance those services.
- Therefore, putting U.S. fiscal policy on a safe path would require significant changes in spending, revenues, or both.

Summary Figure 2.

Total Revenues and Outlays

(Percentage of gross domestic product)



Source: Congressional Budget Office.

A CLASSIC EXAMPLE OF THIS IMMATURE BEHAVIOR:

The Medicare Prescription Drug and Modernization Act of 2003 (the MMA '03) .

MY TAKE ON THE FISCAL PROBLEMS WE FACE

Most of the fiscal calamity besetting governments at all levels in the U.S. stem from the fact that we steadfastly refuse to realize that taxes in this country are too low, given what voters and the country's elite want government to do.

**As preacher Len Nichols will tell you, in Matthew 22:21
Jesus is quoted as admonishing the people:**

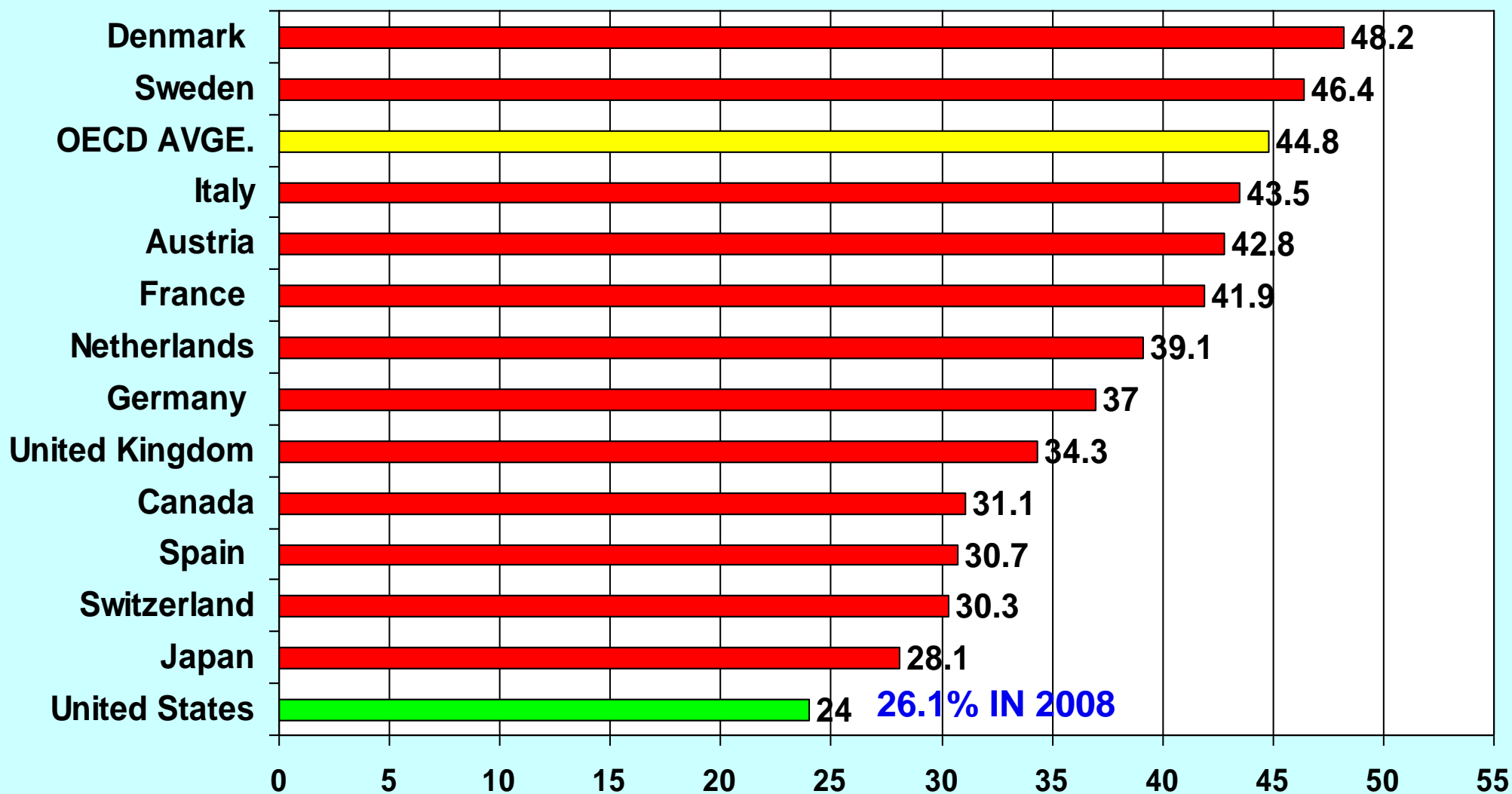
“Ἀπόδοτε οὖν τὰ Καίσαρος Καίσαρι καὶ τὰ τοῦ Θεοῦ τῷ Θεῷ”

(Render unto Caesar the things which are Caesar's)

*“In plain English, shut up
and pay for what you get.”
That's what Jesus meant!*



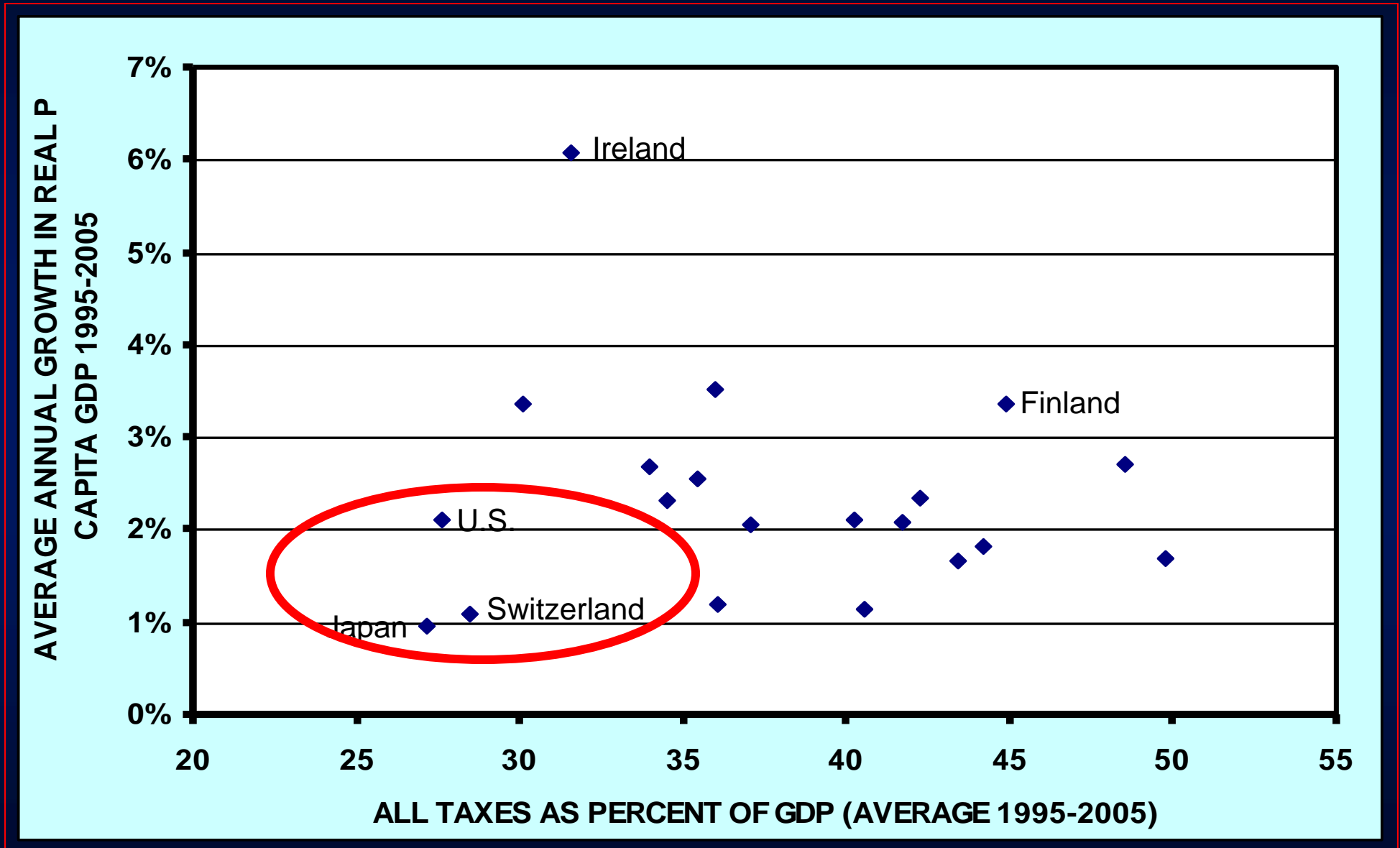
TOTAL TAXES AS PERCENT OF GDP, 2009



Source: OECD Tax Data Base,

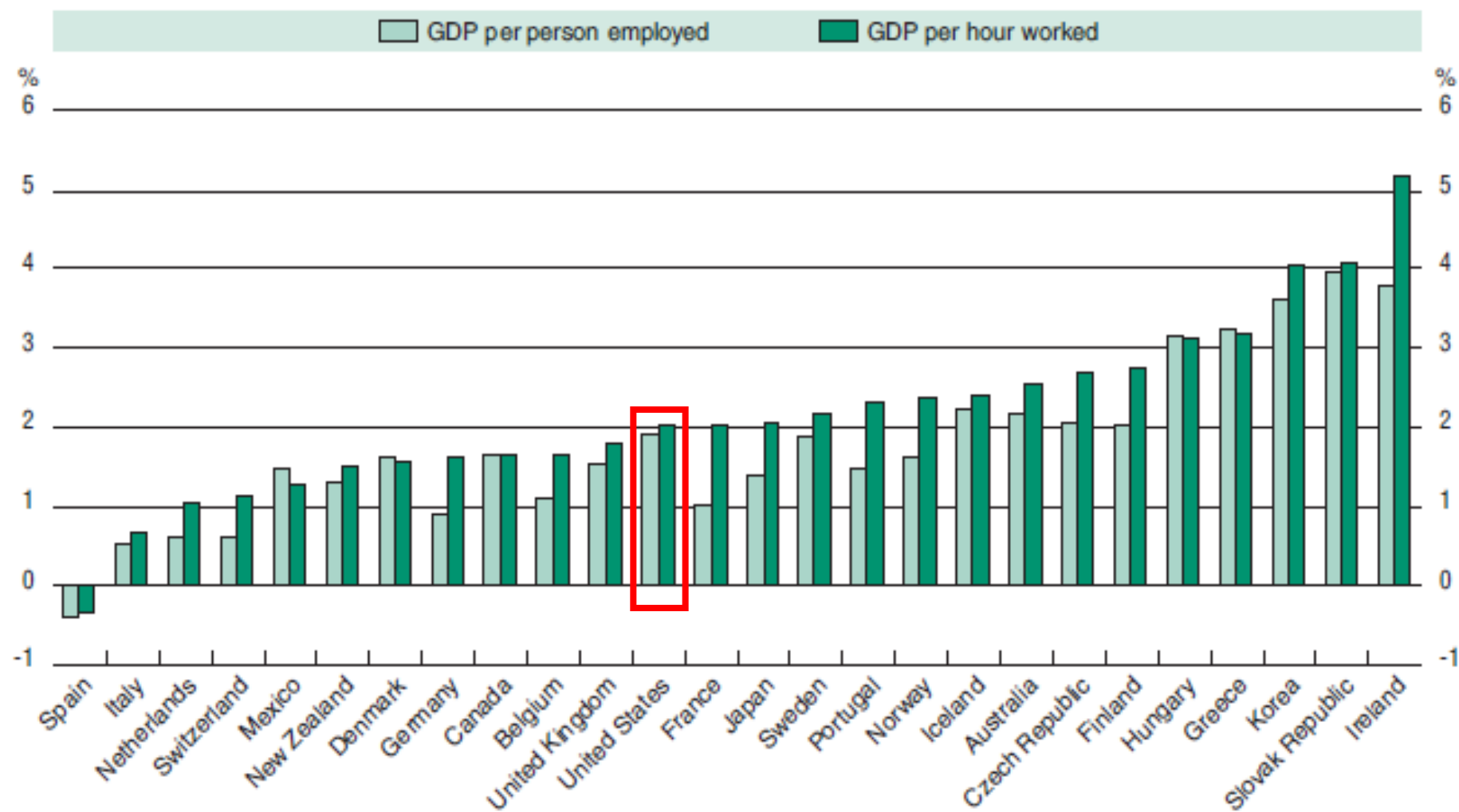
http://www.oecd.org/document/60/0,3746,en_2649_34533_1942460_1_1_1_1,00.html#A_Revenue_Statistics

TAXES AND AVERAGE ECONOMIC GROWTH IN REAL GDP PER CAPITA 1995-2005



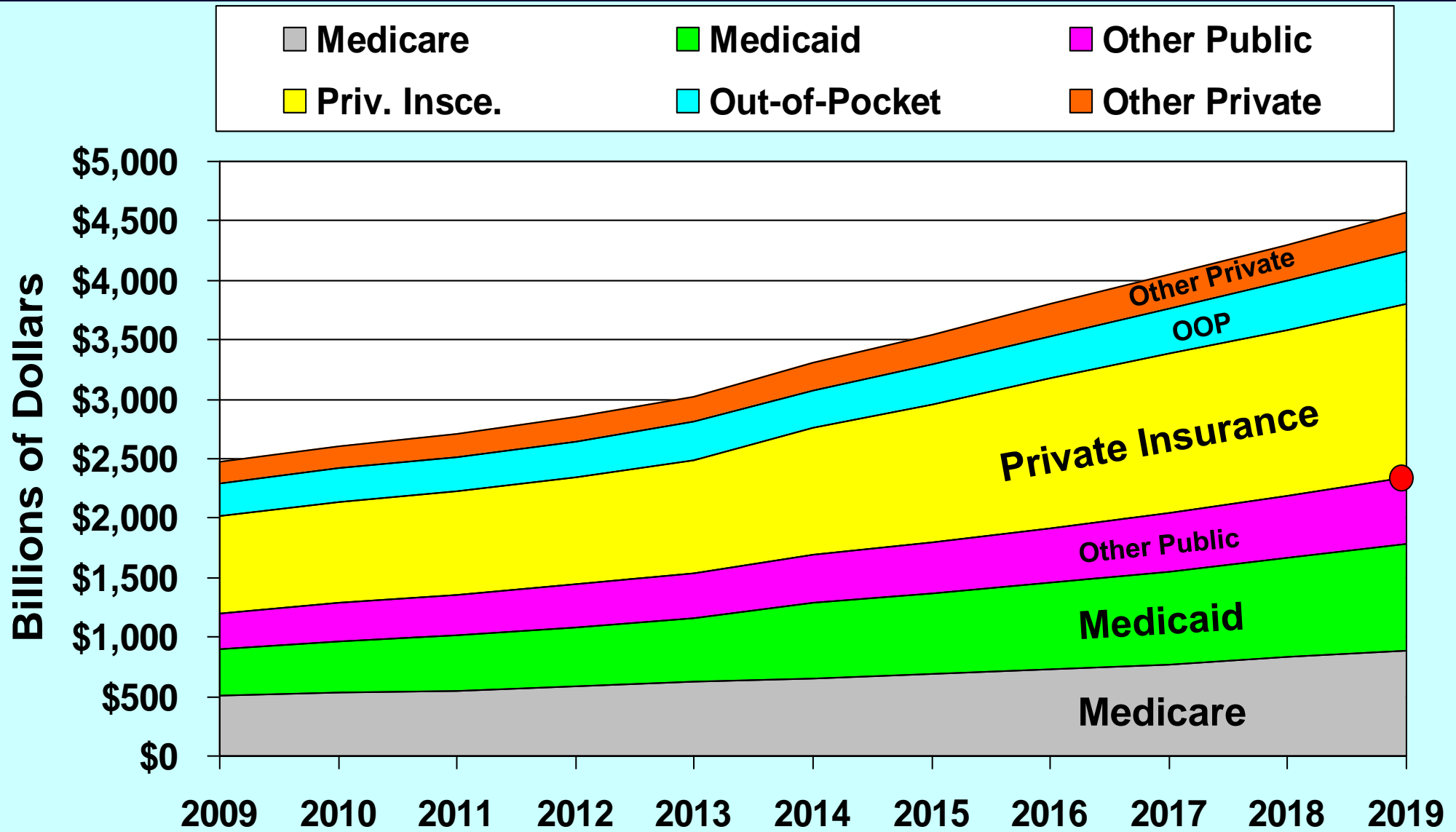
SOURCE: OECD Data Base

Chart 6. Comparison of growth in GDP per hour worked and GDP per person employed, 1995-2002
Annual compound growth rates



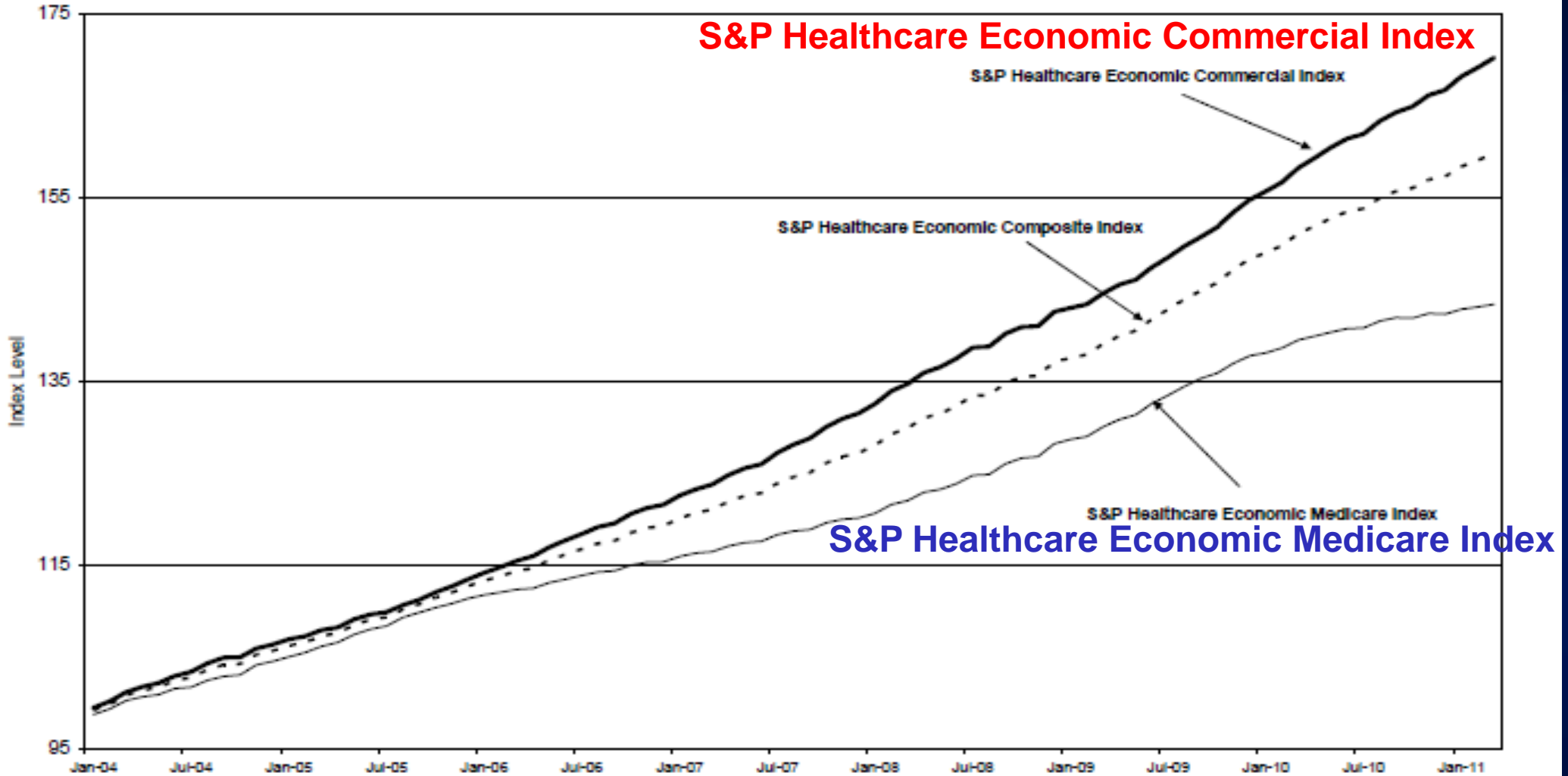
But is health care totally innocent in this debacle?

PROJECTED HEALTH SPENDING 2009-19 BY SOURCE



SOURCE: CMS Data and Statistics, Sept. 2010 Update.

S&P Healthcare Economic Indices
12-Month Moving Averages



S&P Healthcare Economic Commercial Index

S&P Healthcare Economic Commercial Index

S&P Healthcare Economic Composite Index

S&P Healthcare Economic Medicare Index

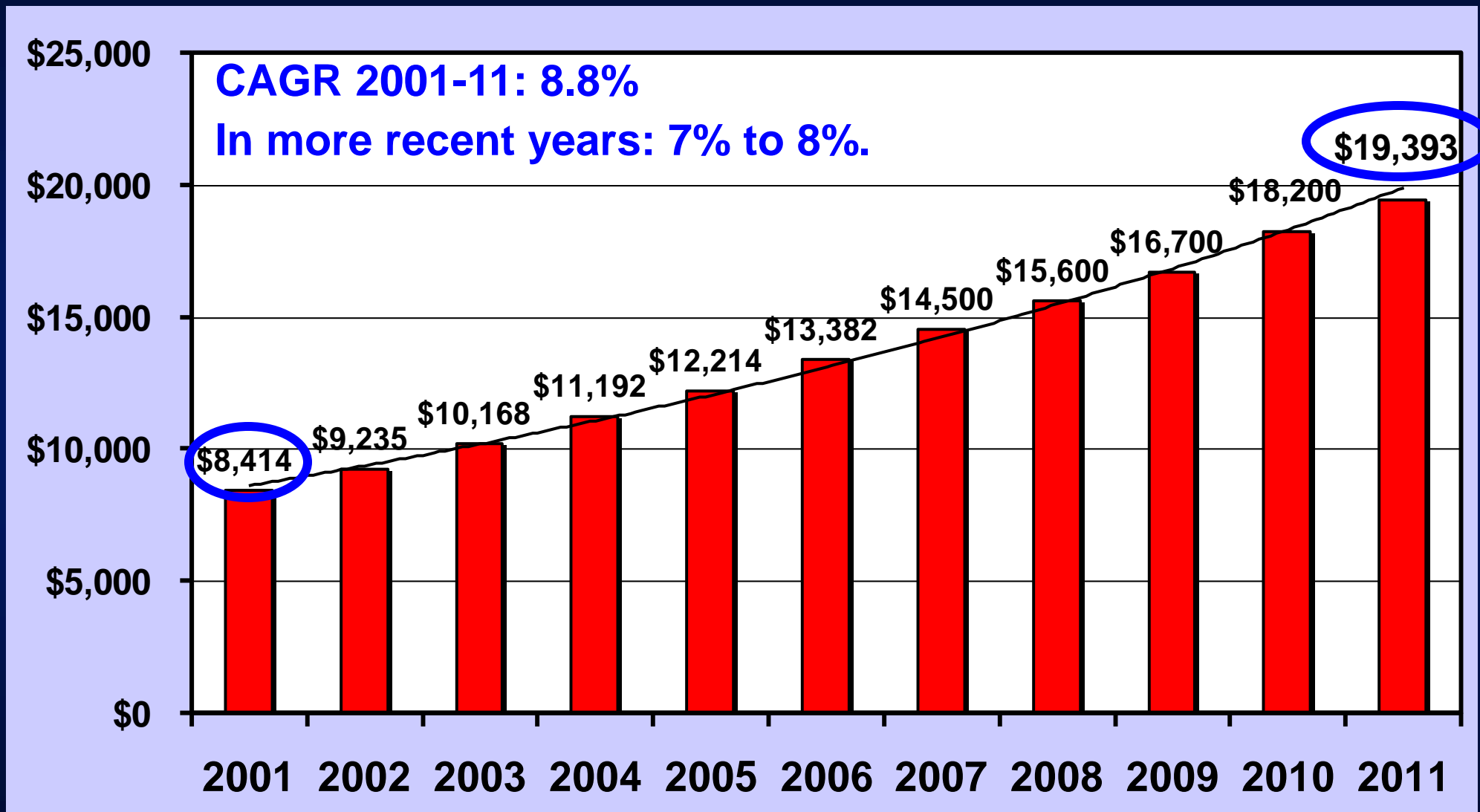
S&P Healthcare Economic Medicare Index

Source: Standard & Poor's

SOURCE: McGraw Hill S&P Indices, May 19, 2011

MILLIMAN MEDICAL INDEX (MMI)

Average Annual Medical Cost for a Family of Four





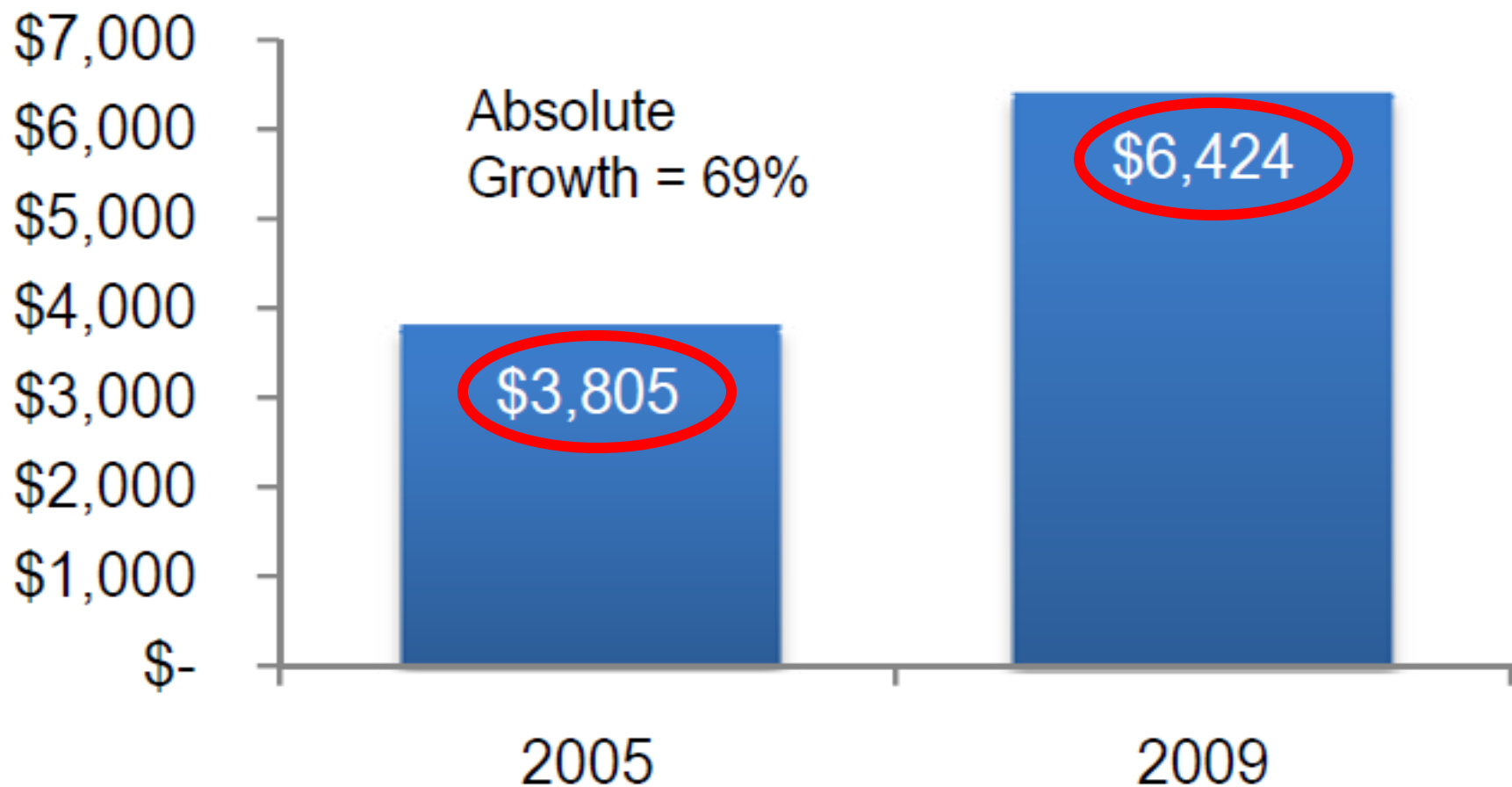
December 2010

Recent Trends in Hospital Prices in California and Oregon

In Oregon, hospital prices faced by commercial insurers for common discharge categories also grew very rapidly between 2005 and 2009:

	2005-2009 Average Annual Rate of Price Inflation
Appendix removal:	11.3%
Balloon angioplasty without heart attack:	8.4%
Cesarean delivery:	11.5%
Hip joint replacement:	10.9%
Normal newborn:	10.4%
Pneumonia:	9.6%
Upper spine and neck procedures:	11.9%
<u>Vaginal delivery:</u>	14.0%
Vaginal hysterectomy (excluding cancer or non-malignant tumor):	12.9%

Figure 2a. Oregon Statewide Average Reimbursement for Normal Vaginal Delivery, 2005-2009



One can entertain two different theories on the relationship between public- and private-sector health spending per capita:

- 1. Prices (and per-capita spending) in the private sector are higher because government's low prices shift costs to private payers.**
- 2. Prices in the private sector have a life of their own and act as a locomotive pulling public-sector prices up behind them.**

I personally have remained a skeptic on the cost-shift theory and tend more to the locomotive theory.

MY TAKE ON THE HEALTH CARE SPENDING

1. In its current state, the private health insurance industry is too fragmented to provide adequate countervailing power to the increasingly consolidated supply side of the health sector.
2. We'll never get a handle on health care costs unless we are willing to shift to an all-payer system on, say, the Swiss or German models.
3. The alternative is fairly severe rationing of health care by income class.

Pushing people out of public health programs could help solve government's budget problems, but it would not solve the overall *Pac Man*® problem Americans face.

U.S. Health Care



eyeing America's GDP