

# The Current Health Care Crisis From a Political, Economic and Historical Perspective

Richard O. Dolinar MD



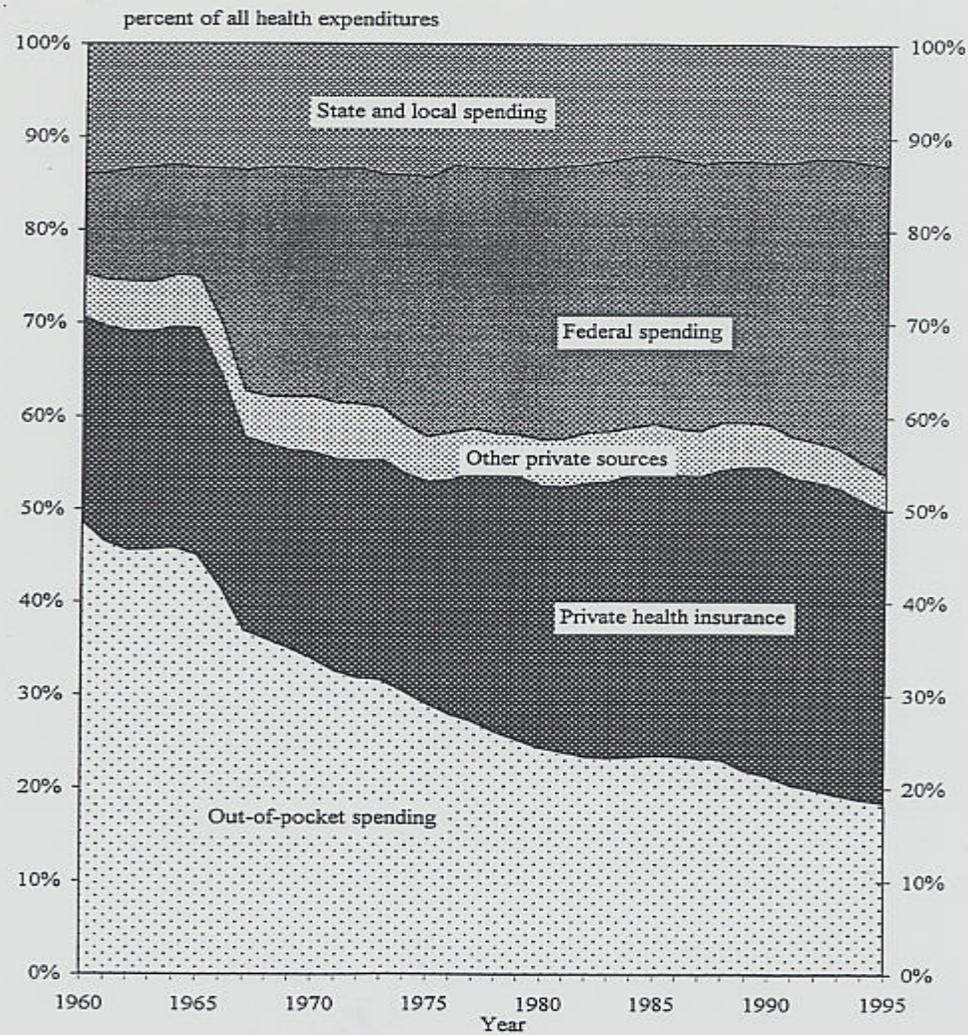
The Smith children are eating their supper without realizing that 11 things are wrong. Can you help them find these things?

# History of Health Care

---

- 1883      Germany
- 1935      Social Security Act
- 1942      Employer Based Health Insurance
- 1965      Medicare

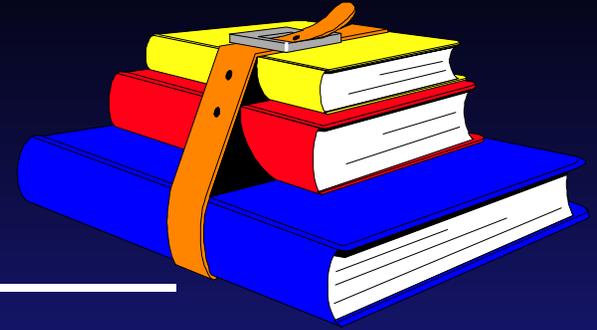
Figure 1.4. Health Spending by Payment Source, 1960-1995



Source: Figure prepared by CRS based on data from the Office of the Actuary, National Cost Estimates, HCFA.

# Webster's Dictionary

---



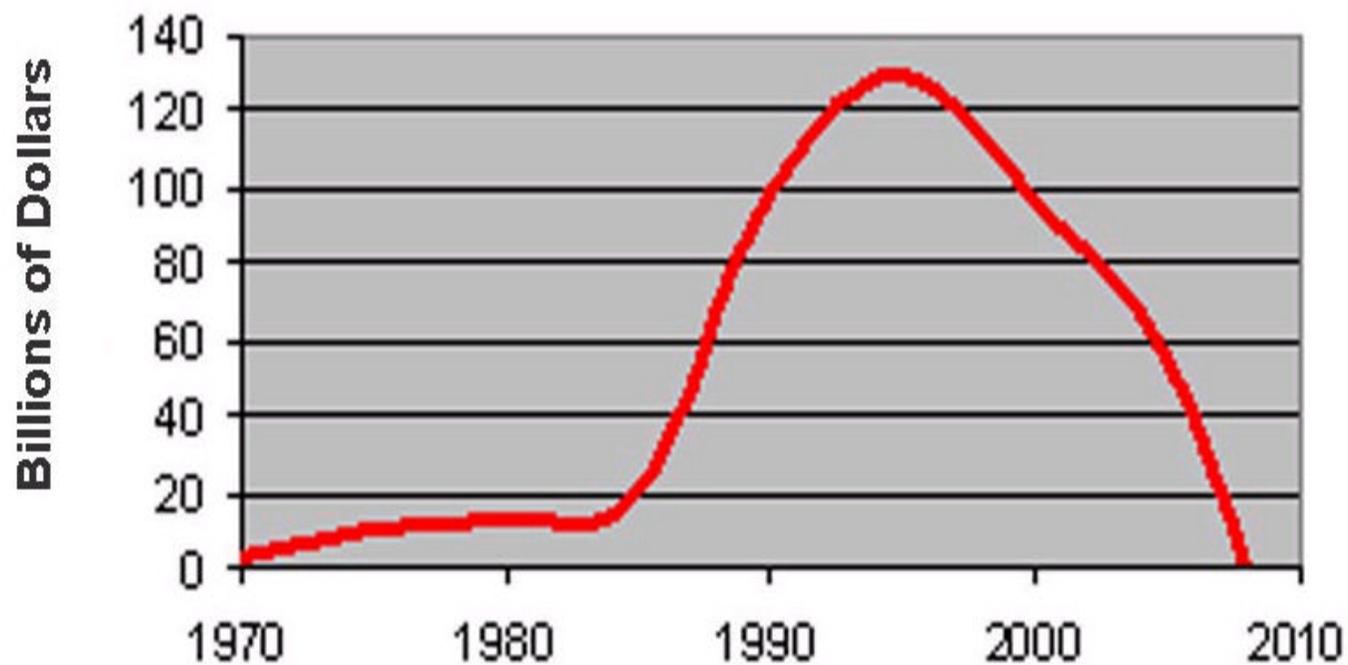
Insurance - coverage by contract whereby one party agrees to guarantee another against a specified loss.

Entitlement - a government program providing benefits to members of a specified group.

“This gimmick merely postpones the full impact of the cost and causes Medicare’s ‘real burden’ to be shifted to the future.”

Reference: 1965 House of Representatives Minority Report regarding the financing of Medicare

## Part A Trust Fund Goes Bankrupt in 2008



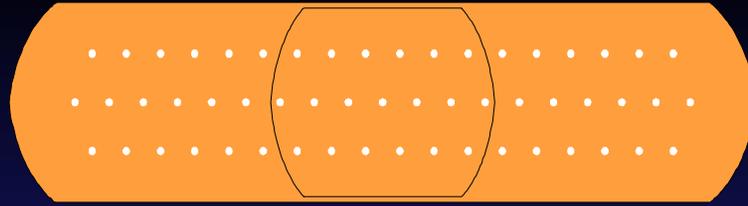
Source: Health Care Financing Administration

# Title 18 of the Social Security Act

---

1801. Nothing in this title shall be construed to authorize any Federal officer or employee to exercise any supervision or control over services provided, or over the...compensation of any...person providing health services; or to exercise any supervision or control over the administration or operation of any such institution, agency or person.

Signed into law July 30, 1965 by President Lyndon Johnson



# Who can cure health care?

Politicians continue to promise expanded access, lower costs and preservation of choice.

Most economists believe these goals are incompatible.

# Managed Care –

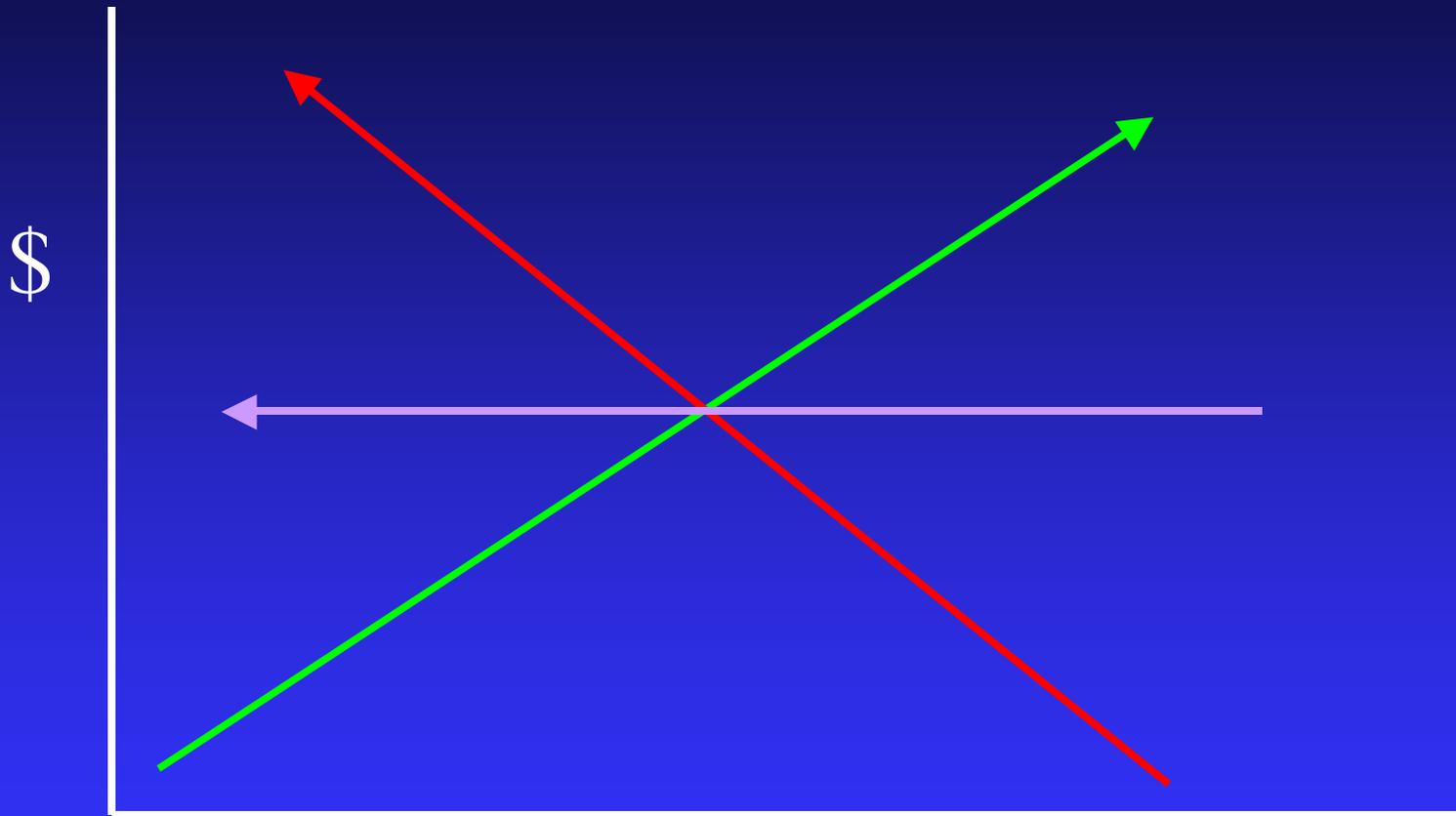
Any system that manages the delivery of health care in such a way that cost is controlled

“Sometimes by centralizing things, you make them work less well.”

-Maj. Gen. Les Burger, on the need to fix some aspects of the TriCare program. -

# Fundamental problems in centrally planned economies:

1. Misaligned incentives

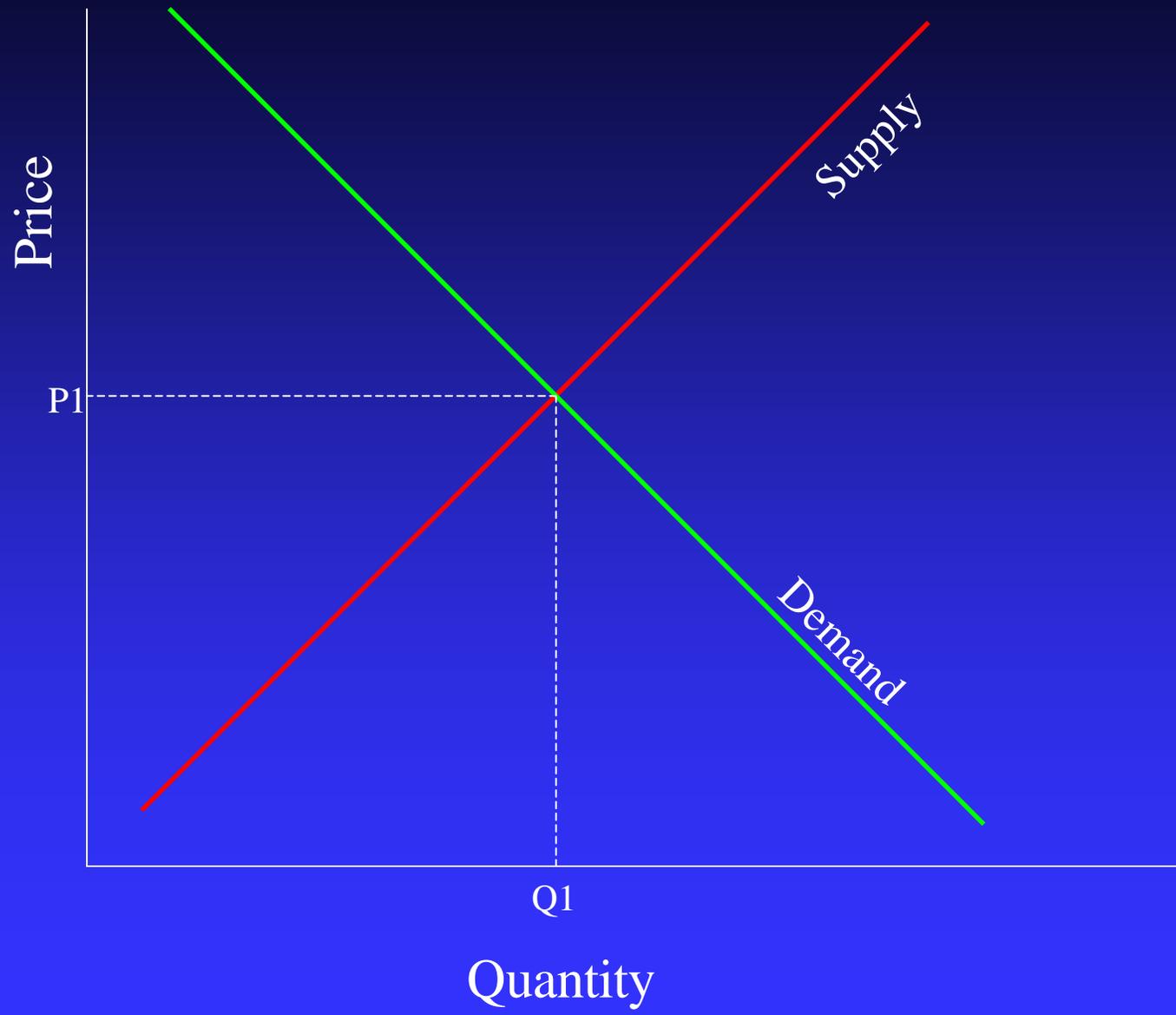


Patients

# Fundamental problems in centrally planned economies:

1. Misaligned incentives
2. Lack of adequate information
3. Who will rule vs. who will be ruled
4. Rigid / Static
5. Inability to establish true price

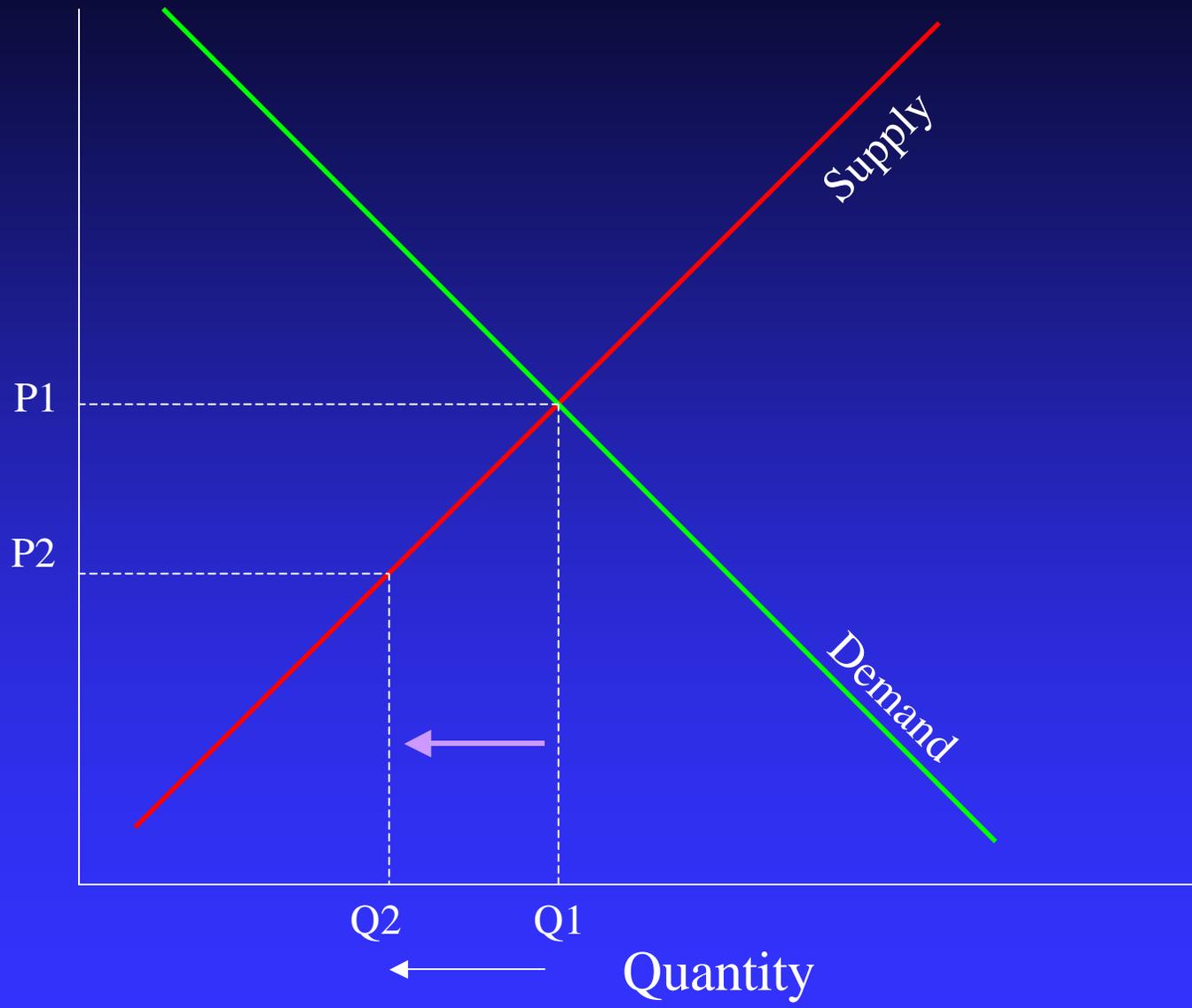
Price –  
is determined by supply and  
demand not cost of production.



# Medicare Part B Reimbursement

$$\text{Payments} = [(RVUw_s \times GPCIw_a) + (RVUpe_s \times GPCIpe_a) + (RVUm_s \times GPCIm_a)] \times CF$$

Price



Quantity

Price

P1

P2

Supply

Demand

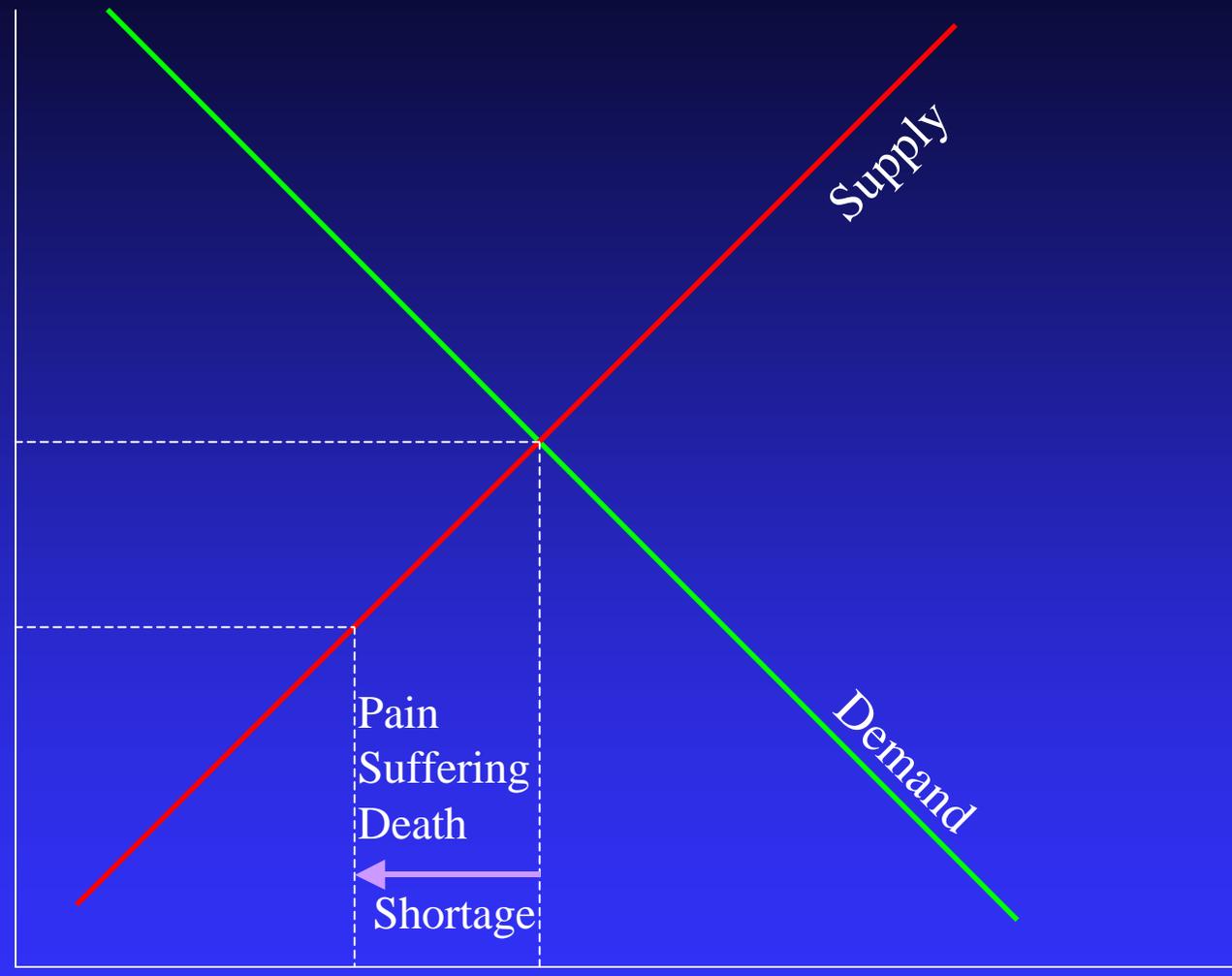
Pain  
Suffering  
Death

Shortage

Q2

Q1

Quantity



“Where there is no free market,  
there is no pricing mechanism.

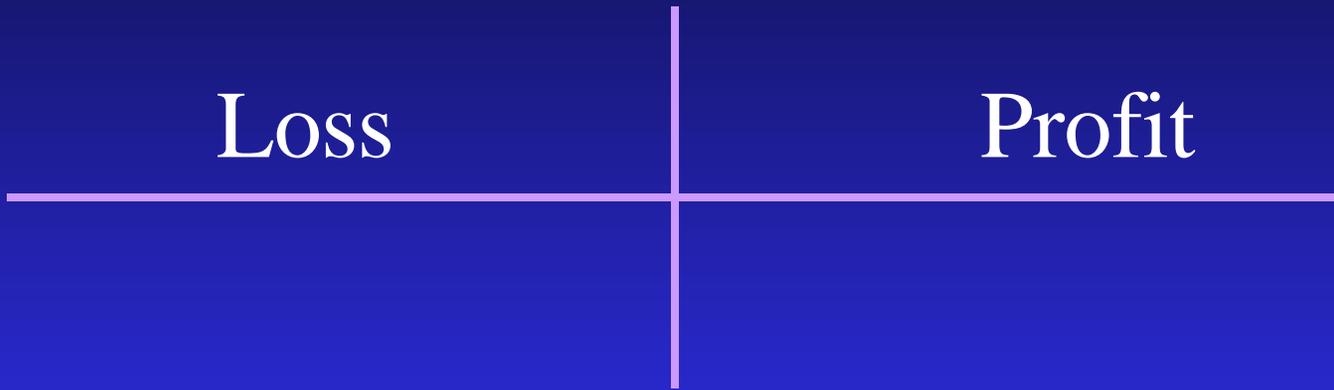
Without a pricing mechanism,  
there is no economic calculation.”

Ludwig von Mises, 1920

Price

Loss

Profit



Bottom Up



Consumer  
Choice



Competition



Price Wars

Top Down



No  
Choice



Coercion



Price Controls

250X99- Ar Leg

## NATION

# Clinton to attack drug industry

## Offensive to boost + Medicare issue in 2000 campaign

By Robert Pear  
New York Times

WASHINGTON — President Clinton is opening a new attack on the drug industry, saying that drug companies are charging too much and have grossly misrepresented his proposal to offer drug coverage to all Medicare beneficiaries, White House officials said Sunday.

The political offensive, echoing Clinton's harsh criticism of the industry in 1993, is set to begin today in a speech that will set the stage for an election-year fight over Medicare drug benefits. Democratic candidates for Congress and the White House say they will press the issue because they see it as a way to underline their differences with Republicans on a pocketbook issue vital to millions of voters.

White House documents, written to buttress Clinton's case, criticize the pharmaceutical industry on the ground that it is running a "multi-million-dollar scare campaign" of advertisements to kill his proposal. In addition, White House officials

said, Clinton will observe that prescription drug prices are often higher in the United States than in other advanced industrial countries.

In an interview Sunday, Joel Johnson, a senior adviser to the president, said, "We have reluctantly concluded that the pharmaceutical industry has chosen the path of confrontation rather than cooperation. The president extended an olive branch to the industry. They snapped it off. Their ad campaign is evidence of that."

White House officials said they welcomed the opportunity to take on the politically powerful, well-financed industry. If Clinton secures Medicare coverage of prescription drugs, they said, he will cement his legacy in health policy.

And even if he tries in vain, they say, the fight may help Democrats regain control of the House of Representatives while aiding the campaigns of Vice President Al Gore and Hillary Rodham Clinton.

Drug company executives defended their prices as fair and their advertising as accurate.

Alan Holmer, president of the industry's main trade association, the Pharmaceutical Research and Manufacturers of America, said: "Drug discovery is a very high-risk enterprise. On the average, it costs

\$500 million to get one new medicine to market over 12 to 15 years. In 1999, the pharmaceutical industry is investing \$24 billion in research and development. This represents 20 percent of sales revenues, the highest percentage of any industry in America."

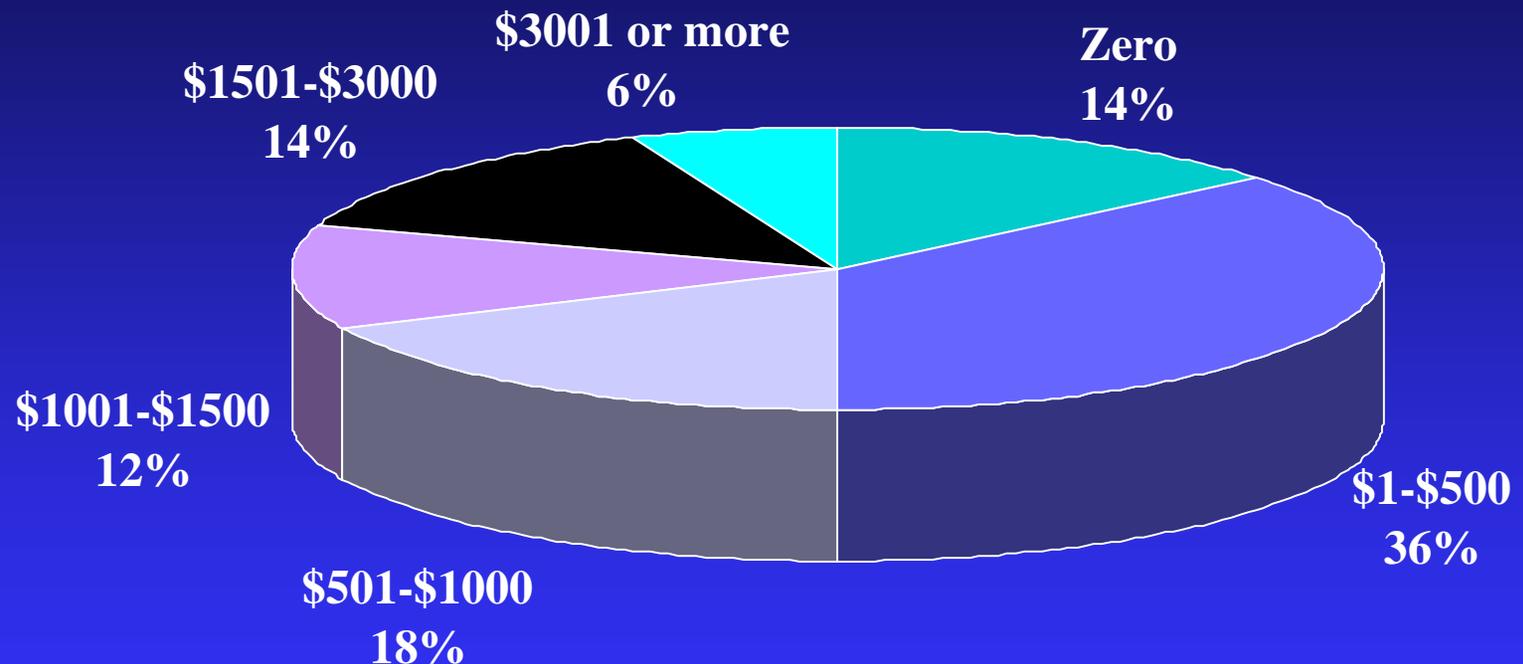
The president's attack comes just as the drug industry is encouraging Medicare beneficiaries to write Congress in opposition to the president's plan. Republican leaders have already said that no new prescription-drug benefit will pass this year but that they will consider it next year.

Johnson summarized a theme of the remarks to be delivered by the president: "High drug prices hurt seniors every day. A Medicare drug benefit could alleviate that pain. Seniors often forgo the medicine that a physician prescribes, because they can't afford to pay for it."

White House officials said Clinton will direct the secretary of Health and Human Services to do a 90-day study of drug costs for the elderly. Specifically, he will ask for data to document that elderly people who buy drugs on their own pay much higher prices than favored customers like health-maintenance organizations and the federal Department of Veterans Affairs.

# Out-of-Pocket Payments

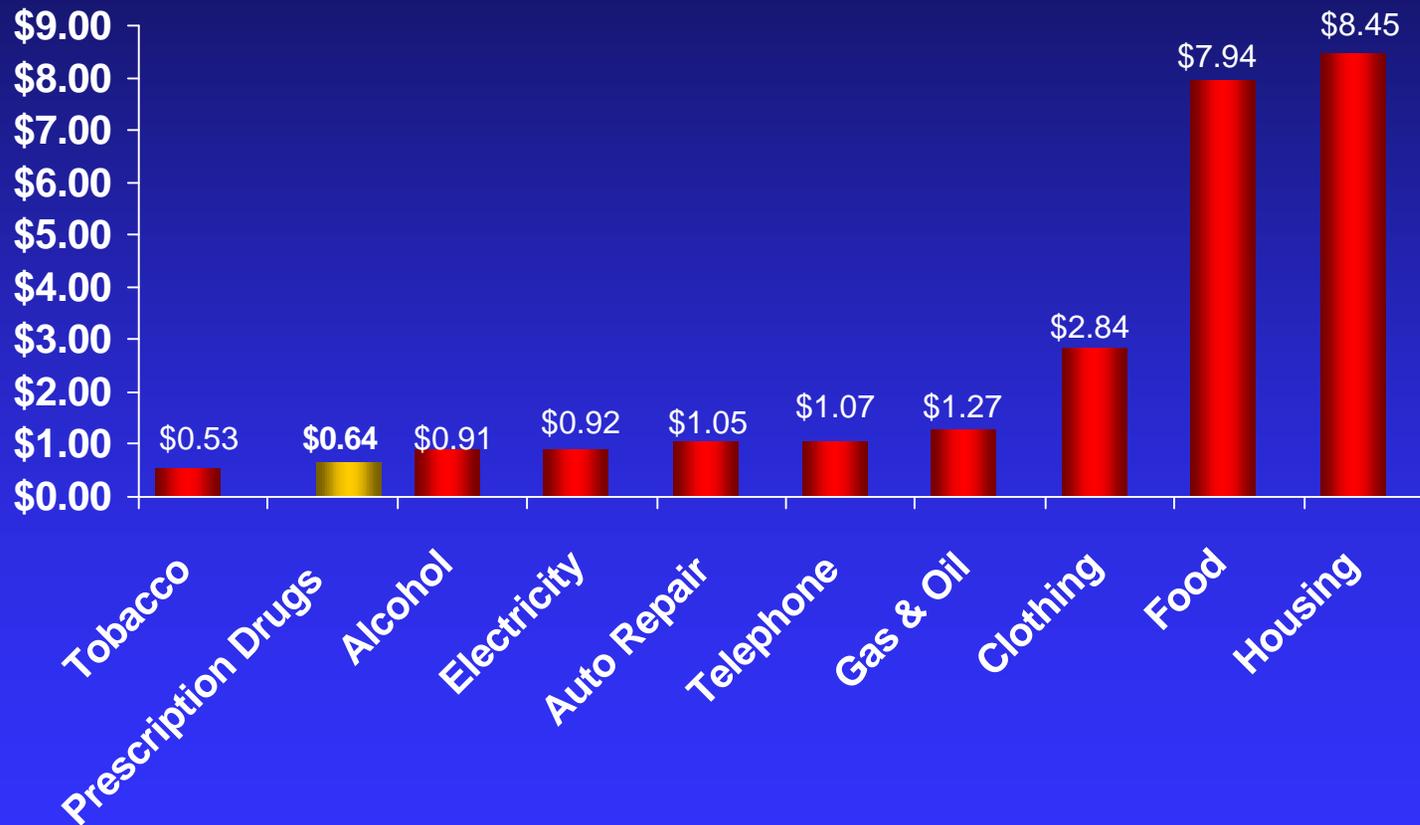
How much Medicare patients spent on prescription drugs last year:



- 50% pay \$500 or less/year
- 80% pay \$1,500 or less/year

# Daily U.S. Consumption Expenditures

Consumption Expenditures Per Day



Source: U.S. Department of Commerce, Bureau of Economic Analysis, 1998

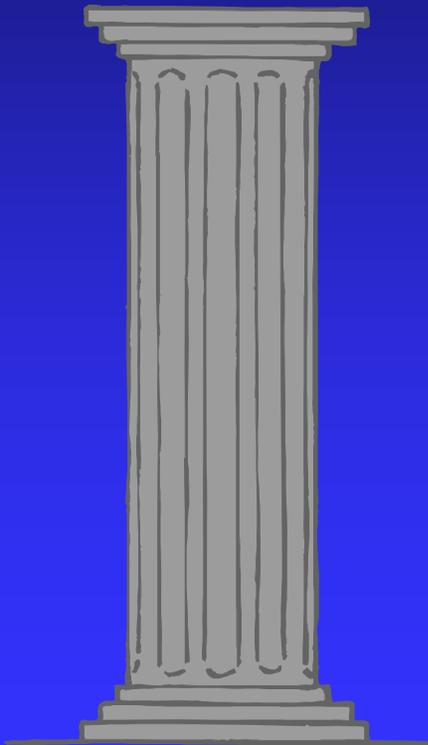
Dx: The patient has lost his  
ability to vote his dollar in  
the medical market place

Rx: Patient empowerment

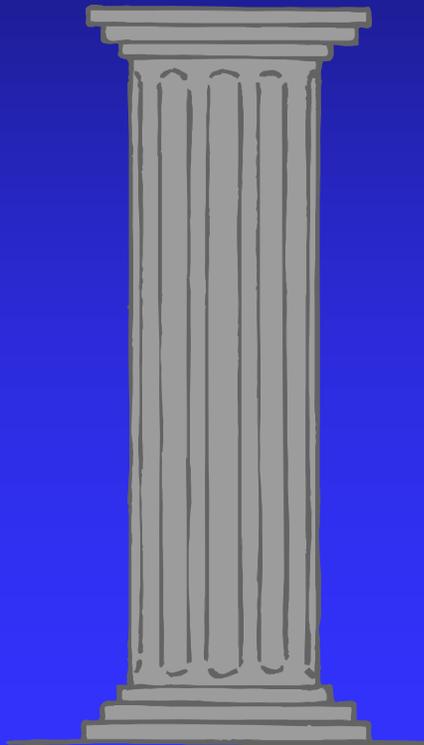
# Strategies for change:

---

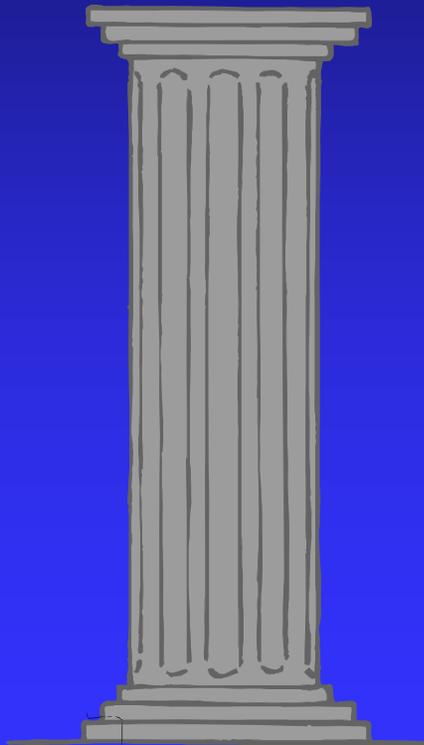
Education



Legislation



Adjudication



# Proposals for change:

---

1. Change tax code
2. Expand MSA's
3. Means test Medicare
4. Privatize Social Security

“A few lines of reasoning  
can change the way we see the world.”

-Steven E. Lansburg-