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Cutting Rising Medical Costs Not Shrinking Jobs Stimulus Spending

Although it is crazy from an economic point of view to be trying to reduce the federal deficit in the midst of stubbornly high unemployment rates combined with the risk that Europe and the United States may stumble into another recession before we ever climb out of the current one, the federal deficit, rather than unemployment, has become the focus of both of our political parties.

To no one's surprise, the bi-partisan Deficit Reduction Super Committee has not been able to find a majority in favor of anything in particular. The stumbling block, of course, has been the Republican refusal to consider any significant increase in taxes while the Democrats will not accept deep cuts in Social Security, Medicare, Medicaid and other social safety net programs for middle and lower income Americans. The Republicans argue that, during a recession, taxes should not be increased on anyone, including the rich. The Democrats respond that cutting programs that protect the incomes of middle and lower income households during hard economic times is no different than a tax increase that selectively targets those who can least afford to pay more while protecting the incomes of the rich. Stalemate!

In important ways, most of the current federal deficit will take care of itself when the economy recovers and our workers and other resources are put back to work. Federal revenues will automatically rise as the economy expands, dramatically reducing the deficit, just as those federal revenues fell steeply with the economic collapse, helping to create our current large deficit.

But there is one important part of federal spending that by all projections will continue to rise dramatically, through good economic times and bad: That is the cost of providing medical care through Medicare for senior citizens, Medicaid for low income households, and medical care for veterans.

It is important to realize that this is not a problem tied to an incompetent federal government. Every household faces the same health care cost challenge as does every business and state or local government that provides health insurance to its workers. Medical costs continue to rise much faster than household incomes, business productivity, and government revenues. Simply put, medical costs are out of control. If nothing is done about sky-rocketing medical costs, neither governments nor businesses nor households are going to be able to balance their budgets without slashing their expenditures on medical care and/or other necessities.

Conservatives have what they think is a ready fix to the health care cost problem that the government faces: Cap the dollars that the government spends on helping cover individuals' medical costs. Businesses as well as state and local governments could do the same: Instead of providing insurance that is open ended in the costs that are covered, offer only a fixed amount of money no matter how high a person's medical costs go. Replace insurance with medical savings accounts into which governments and businesses put only fixed and modest amounts of money. Households would be responsible for all of the rest of their medical costs.

There is some economic logic to this: At least someone would be made responsible for footing the bill for medical care, namely the individual health services consumers, that is, the sick or hurt people, no matter what their income might be, no

matter for whom they worked, and no matter what their military service. Economic theory and Republican politicians say this will make us all more careful and frugal consumers of medical services and this will bring medical costs down.

But that will work only if we are willing to exclude those who cannot afford medical care from asking for it and receiving it. Hospitals and doctors will have to be authorized and encouraged to turn patients away on the basis of their ability to pay. We as a society will also have to accept that a significant proportion of us will not seek medical care even when we have a serious medical condition because our medical savings accounts will not pay for what we need. We would also face even more households going into bankruptcy because of medical costs.

It seems unlikely that in the twenty-first century, we, one of the richest nations on the planet, will be willing go back to such a nineteenth century Dickens-esque social arrangement. Instead, doctors, clinics, and hospitals will continue to provide treatment to those who cannot afford care and pass the bill on to those customers who can afford health care through higher charges. In short, we will have even more of the current informal and random socialized medicine even if the government is less involved.

The US Supreme Court is going to have to decide if the nation has enough of a financial interest in systematizing how we collectively protect all citizens' access to health care to justify federal government intervention across the nation in the way the health insurance reform passed by Congress authorized. If that individual mandate to buy health insurance does not survive challenge before the US Supreme Court, the stage may be set for something the Republicans would like even less: a federal single-

payer system funded by the equivalent of taxes, the same way that Social Security, Medicare, and Medicaid are now funded.

But that would simply compound the problem of rising medical costs unless the federal government also used its purchasing power and regulatory authority to reign in rising medical costs. Except for the Veterans Administration, current law has kept the federal government from acting directly to effectively control the cost of necessary medical drugs and procedures.

Ultimately, we as a society are going to have to face up to the fact that the pricing system for medical care in this country is seriously broken and has to be fixed before anything serious can be done about federal deficits even during boom times when they are clearly inappropriate.

We need to get back to work on constraining medical costs not constraining government spending to create new jobs.