Administration Left Wondering What Went Wrong

by Murray Weidenbaum

THey never learn. That is an accurate description of the major participants in the national debate on health care. Here’s some evidence: a few months ago, C-SPAN covered an unusual, but fascinating, meeting of the domestic policy advisers for every president from Richard Nixon to George W. Bush. As you would expect, they disagreed on most specific policy issues. However, they reached unanimity on two important pieces of advice to a new presidential administration: the vital need to set priorities at the outset, thus avoiding the problems that result from trying to do everything at once, and the importance of presidential leadership—especially the avoidance of letting Congress write the president’s programs.

Clearly, the White House was not paying attention. The new team started off with a focus on dealing with a rapidly declining economy and rising unemployment. Whether you are a big government liberal or a small government conservative, that was a very sensible decision. However, other priorities quickly were added to the stimulus bill and the policy agenda. These ranged from new energy and environmental programs to long-term investments in science, education, etc. The result is that only a small fraction of the $787,000,000,000 appropriated by Congress for getting the economy going again is scheduled to be spent in 2009, or even in 2010, when unemployment likely will remain quite high. In many cases, the bulk of the “stimulus” money will not be expended until 2011-14—or even later. It is no surprise that the public is concerned that the Federal deficit is hitting all-time highs while unemployment continues to rise.

That is the background for the ongoing debate on health care reform. To compound the problem, the lack of White House leadership in legislative matters has resulted in a variety of House and Senate committees coming up with a dizzying array of alternative responses to the health care situation. Consequently, it is not surprising that the public is confused and unhappy with the course of the national debate on health care.

Let us step back a moment and consider how events might have proceeded if White House personnel had taken the advice of the Washington veterans who preceded them. The initial focus on getting the economy out of the ditch was correct. In fact, we can recall that several experienced public policy economists (Democrats and Republicans) urged Congress to split the stimulus bill into two parts. The first—and hopefully larger part—would have been straight stimulus, putting all of the money into tax cuts and spending increases that would help generate economic growth and create new jobs in 2009 or 2010. The long-term programs—those having their major economic impact four, five, or more years down the road—would have been put into a second bill and placed on the “back burner.”

In this situation, while the economy was absorbing the stimulus, the White House could have had time to develop a sensible and well-thought-through policy package on health care. As the economy began turning up on a sustained basis, Pres. Barack Obama could have sent Congress carefully developed proposals for essential changes in national health care policy. In the spirit of the recommendations of the White House advisers of the past (both liberal and conservative) the emphasis would have been on the essential elements. All sorts of “nice to have” details on medical treatment would have been omitted to avoid bogging down the course of the legislative process (as seems to have occurred).

Many people tend to forget that the original impetus for health care reform was to provide insurance for the many millions of our fellow citizens who lack such coverage. The general idea was not very controversial. The questions that arose were mainly how to achieve the objective in a sensible, cost-effective way. Apparently, though, that was too simple and straightforward an approach for the more ambitious reformers.

A careful examination of the health insurance situation would have revealed to them that the largest segment of the population without coverage are employees (and their families) in very small businesses, those with 10 or fewer workers. The additional analysis also would have shown that the premiums paid per employee are much higher for small businesses than for larger ones—and for good reason.

First of all, the administrative cost of dealing with large numbers of small firms is much greater than for serving a small number of large employers (be they for-profit or nonprofit organizations). Economists call that phenomenon enjoying “economies of scale.” Also, larger employers tend to do much of the initial paperwork, including helping employees fill out the forms correctly. That also reduces the costs of the insurance companies who reciprocate by offering lower premiums. Other reasons are more technical, but operate in the same direction. Actuaries tell us that larger organizations have more representative pools of people to cover than smaller units.

There are sensible ways of dealing with this situation. In some metropolitan areas, nonprofit civic organizations help to organize small companies into larger “pools” for insurance purposes. By bringing down the paperwork and other costs facing insurance companies, the result can be lower premiums for individual small employers. This makes it feasible for some of those firms to provide insurance at a reasonable cost.

Carefully designed Federal legislation could accelerate this process. Information on best practices as well as some financial assistance would encourage more communities to organize their small employers to provide health insurance to their employees at affordable prices. Admittedly, this approach is not a dramatic response to the more enthusiastic proponents of health care reform. It will not generate headlines or 30-second quotes on the nightly news. Nevertheless, such seemingly modest actions could demonstrate that it is possible to break the deadlock in health policy by adopting some modest, but useful, initial improvements.

Murray Weidenbaum, Economics Editor of USA Today, is Malinckrodt Distinguished University Professor at Washington University, St. Louis, where he is Honorary Chairman of the Weidenbaum Center on the Economy, Government, and Public Policy. He served as Chairman of the Council of Economic Advisers (1981-82) for the Reagan Administration; Assistant Secretary of the Treasury for Economic Policy (1969-71) for the Nixon Administration; and fiscal economist for the Bureau of the Budget (1949-57) for the Truman and Eisenhower administrations. He is the author of The Competition of Ideas: The World of the Washington Think Tanks.