



Obama's Health Plan

Far short of "transformational"

By Roger Bybee
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When it comes to cutting parasitic bankers out of the student loan business so that more students can be helped and left with a lower debt burden, President Barack Obama is trying to fulfill his goal of becoming a "transformational" president. "The White House estimates that it could save about \$94 billion over 10 years if it cut out all the middlemen," *NY Times* columnist Gail Collins wrote (5/27/09). "And it has the basis of a system in place, since the Department of Education already makes a lot of direct loans to students." Economist Dean Baker explained, "The current system is government guaranteed profits for private banks: a perfect 'free market' in Wall Street lexicon" (Truthout, 4/27/09).



Yet, in a precisely parallel situation with the infinitely more costly health-care system, Obama and Democratic leaders are decisively rejecting a single-payer system like that used in Canada and Taiwan, where a single public-sector "payer" replaces over 1,500 separate insurance firms. Obama and top Democratic leaders like Senator Max Baucus (Senate Finance Committee Chair) have calculated for-profit insurers are politically indispensable. This is despite the 2003 landmark study by Drs. Steffie Woolhandler and David Himmelstein of Harvard Medical School that quantified the economic millstone for-profit insurers hang around the neck of U.S. health care: a needless \$400 billion in administrative overhead and profit. Where insurer-driven excess administrative costs account for about 31 percent of all U.S. health spending, total administrative costs for the public Medicare program are just 2 percent. Canada's system, which substitutes a single public entity in each province for the insurance industry, spends about 12 percent on administration, according to Princeton economist Paul Krugman.

Moreover, the insurers' basic motives bear a perverse relationship to the provision of health care. "The function of a private health insurance company is not to provide health care; it is to deny health care,"

argued Sen. Bernard Sanders (I-VT). Health insurers amassed a stunning 170 percent increase in their profits from 2003 to 2007, and the CEOs of the 7 biggest insurers averaged \$14.2 million in compensation in 2007, Sanders noted.



Despite the counter-productive role of insurers and their exceedingly low popularity (public approval ratings below those of tobacco companies), Obama and the Democratic leadership are steaming ahead with their "guaranteed choice" approach, seeking to have a bill pass both houses of Congress by October 15. The bill would include a flexible individual mandate to buy private insurance, tighter regulation of insurers' most objectionable practices, and the creation of a "public option," based on the Medicare model, which consumers can choose over private

insurance.

As for the single-payer alternative, it has been ruled "off the table" by Baucus. Obama initially excluded single-payer advocates from a White House "summit" on health care that was well-attended by top insurers and drug company interests. Mainstream media coverage has been narrowed to shaping the guaranteed choice plan, but virtually none on the public support for single-payer, as Fairness and Accuracy in Reporting has documented (3/06/09).

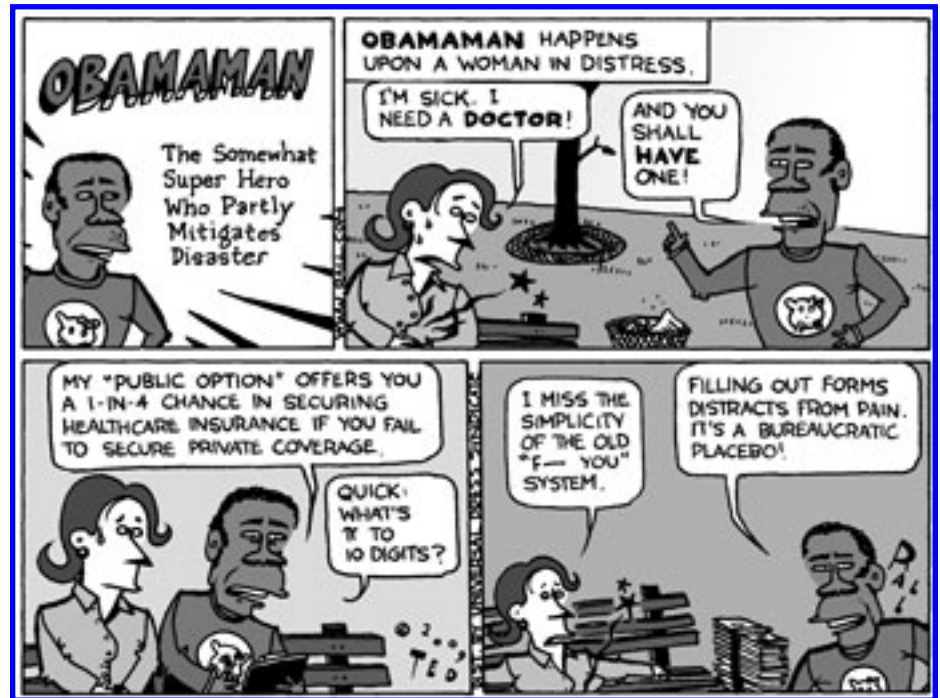
Moving From The Margins

The lack of single-payer support by top politicians and elite media is striking. Numerous surveys have shown the popularity of the single-payer approach. A January CBS/*NY Times* poll showed 59 percent for a single-payer system described in vague terms. *Business Week* reported on a more specific question in a 2005 poll, which found "67 percent of all Americans think it's a good idea to guarantee health care for all U.S. citizens, as Canada and Britain do, with just 27 percent dissenting." In April 2008, a survey of 1,100 U.S. doctors published in the *Annals of Internal Medicine* showed 59 percent backing among physicians for single-payer.

While single-payer proposals and their proponents had been marginalized until recently, the profile of the single-payer model has gained markedly in recent weeks as a result of civil disobedience at a Senate Finance Committee hearing (where Baucus ordered 13 peaceful protesters to be arrested), rallies in numerous cities around the nation, and a segment on the popular "Bill Moyers Journal" TV program.

Meanwhile, the single-payer bill in the House (HR 676) sponsored by Representative John Conyers now has 53 co-sponsors and Senator Bernie Sanders is promoting a similar bill in the Senate (S703). No less than 39 state AFL-CIO organizations have passed resolutions in support of HR676. Deborah Richter, former national president of the Physicians for a National Health Plan (PNHP), said that she and Sen. Sanders have been speaking to massive pro-single payer crowds throughout Vermont. Pro single-payer rallies were recently held in 50 cities across the country

Obama had previously advocated a single-payer plan in a 2003 speech, but now argues that a single-payer system would cause too much turmoil in changing the economy. "If I were starting a system from scratch, then I think that the idea of moving towards a single-payer system could very well make sense," Obama recently told a New Mexico gathering. "The only problem is that we're not starting from scratch.... We don't want a huge disruption as we go into health care reform where suddenly we're trying to completely reinvent one-sixth of the economy."



Bill Moyers and Michael Winship offered a strongly worded retort to Obama's argument. "So the banks were too big to fail and now, apparently, health care is too big to fix, at least the way a majority of people indicate they would like it to be fixed, with a single payer option," Moyers and Winship argued (Alternet, 4/29/ 2009).

Who's At The Table?

Following the thinking outlined for Republicans by conservative pollster and strategist Frank Luntz, the insurers and their allies have adopted a conciliatory, "pro-reform" face. Of course, the insurers and the medical-industrial complex have a distinct vision of reform. As Dr. Don McCanne of PNHP has written: "For the insurance industry, reform means expanding their successful business model to include more individuals in their plans while shifting the higher costs to the government (taxpayers). Most people do not want to be required to purchase health plans at premiums they cannot afford, and then be stuck with inadequate coverage designed to keep premiums from climbing even higher."

Still, the insurers captured favorable media coverage for three rather hollow pledges: agreeing to drop "prior condition" considerations in signing up individual applicants in exchange for the government

creating an individual mandate to purchase health insurance; accepting "much more aggressive regulation of insurance"; and announcing that they would cut \$1.2 trillion from health care costs over the next decade. Each of these pledges is fraught with fundamental loopholes.

While these gestures have generated extensive media coverage and generated a sense of goodwill among some health-reform advocates, the health insurance industry has been fighting a less visible battle to ensure that the final plan emerges with insurer-designed loopholes intact. Toward that end, the health sector invested \$134 million on lobbying in 2009's first quarter alone, according to the Center for Responsive Politics.

Voluntary Efforts Flopped In Past

In early May, a group of health industry leaders and the Service Employees International Union gathered to promise a reduction in costs that would eventually save over \$2 trillion by trimming the cost of health care by an average of 1.5 percent over the next decade. "But similar efforts to control health costs have been rolled out in the past, without much of a long-term effect," the *NY Times* reported (5/11/09).

America's Health Insurance Plans' (AHIP) eager acceptance of "much more aggressive regulation" is also highly suspect. For example, the pledge to accept all individual applicants provokes several important concerns. The industry made a very similar gesture in December 1992, promising to "provide the standard package 'regardless of a person's medical history'" and work with the government to "stabilize health-care prices" provided that all citizens were required to purchase insurance, Igor Volsky of Think Progress (3/25/09) pointed out. "And, this time, AHIP has nothing to lose," stated Volsky. "They're asking the government to protect and even increase its monopoly over providing insurance to Americans under 65 and to strengthen safety net programs that would siphon off the poorest (read: sickest) Americans."

Moreover, Volsky continued, the new offer of "guaranteed issue" (accepting all individual applicants) does not rule out rate variations "according to age, geography, family size and plan design." Thus, a stockbroker living in a wealthy area—and therefore likely to be much healthier—could be charged substantially less than, say, a low-income clerk living in an inner-city neighborhood. There is also great doubt about the ability of any force sufficiently powerful and all-seeing to regulate insurers. As noted, one of the other pillars of the Baucus approach is tighter regulation of insurers. This would include enforcement of the insurers' pledge for acceptance of all individual applicants, and such additional features as greater allocation of insurers' resources to treatment rather than administrative overhead and profits.

"We don't believe it will be easy to regulate private insurance," said PNHP President Oliver Fein. "We have existing examples like Medicare Advantage, which was a way of introducing for-profit care into the Medicare market and where for-profit insurers are paid about 13-14 percent more than under the

standard Medicare plan. We have seen that private insurers have figured out methods in recruiting more healthy patients through offering things like free health club memberships, which are obviously not attractive to patients with crippling arthritis or congestive heart problems. This practice of recruiting healthier and thus less costly patients is known as 'cherry-picking.'

"Because they generally recruit more affluent and healthier senior citizens, the Medicare Advantage plans have lower than average expenditures," Fein added. "But when they go back to back to the public Medicare, their costs are 60 percent higher. They seem to dis-enroll from Medicare Advantage when they encounter more serious health problems." Some health experts see this as a form of "lemon-dropping," where patients run into bureaucratic barriers when they incur more severe health conditions and are thereby discouraged to remain with the insurer.



While the for-profit insurers have pledged to abandon the use of "pre-existing conditions" in writing individual policies, a dispute has broken out among AHIP's members as to whether a similar step should be taken for small business policies. WellPoint in particular seems unwilling to abandon the practice for small business groups. The *New York Times* noted (6/3/09), "The small employer market remains one of the most profitable segments of the health insurance, which may be why the industry is not eager to overhaul this lucrative segment."

The insurance industry's voluntary pledges prompted Washington veterans Bill Moyers and

Michael Winship to note that Jay Gellert, an AHIP board member, reassured his colleagues that it would in no way inhibit maximum profits: "We believe that we can do it without undermining the viability of companies," he said, "and in effect enhancing the payment to physicians and hospitals."

"So why bother with the charm offensive on Pennsylvania Avenue?" Moyers and Winship ask. "Could it be, as some critics suggest, a Trojan horse, getting the health industry a place at the table so they can leap up at the right moment and again knife to death any real reform?" Already, it is clear that the insurance industry and its allies are particularly adamant in their opposition to the Medicare-style "public option" proposed by Democrats.

How Strong is Support for the Public Option?

Strong proponents of a Medicare-style public option envision it as a transitional step toward a full-

blown single-payer system. Professor Jacob Hacker, the original architect of the guaranteed choice concept, economist Paul Krugman, and *Obama's Challenge* author and economist Robert Kuttner are fervently arguing that health reform without a Medicare-style public option would permit the insurers "to avoid being held accountable," as Krugman put it (*NY Times* 6/4/09). "The public plan would be the gold standard for both good coverage and cost containment," Kuttner argues in the *American Prospect* (6/5/09).

However, while Obama has spoken of the public plan as essential to "keep the insurance companies honest," Kuttner worries that the president has not drawn a firmer line in the sand. "Given his desire to work with the insurance companies and get some Republican support, as well, the real question is whether he will put his prestige on the line to keep the public option in the bill," Kuttner stated. "He pointedly did not say that he'd veto a bill without a public option."

PNHP's McCanne expects that AHIP will continue to regard a Medicare-style option as utterly unacceptable competition: "They have said that they do not want a Medicare-style public option, but would accept something like the Federal Employees Health Benefit Plan, which is like a menu of private insurance plans.... Basically, they want high-risk people in a separate program to be funded by the government.

"One of the biggest complaints that AHIP has is that they couldn't compete with a Medicare-type plan, that plans would be so much higher in the private sector. They're afraid of having some obligations to take on high-risk people. It's funny for them to admit the public plan is unfair because it's more efficient," said the PNHP researcher. "But Republicans and [the] U.S. Chamber have said the same thing. They don't want private insurers having to compete with a Medicare-style plan. What they'd like is a system where they can advertise to only the young and healthy, and all the expensive care will be on the government plan...."

Joe Jurczak, chief lobbyist for the California Nurses Association, has become disillusioned by the Democrats' willingness to treat the insurers as partners in the quest for reform. "The House Democrats will tell you that nothing will pass if it doesn't have a strong public plan," he said. "But the Senate Dems will tell you that nothing will pass without approval of those at the table, so the insurers will have to sign off. This tells me that this process is more about the health insurance industry than health care."

Thus, in the name of maintaining bi-partisan support for health reform, despite the filibuster-proof 60-vote Democratic majority, Democratic senators have put forward a number of ideas to weaken the public option so that it no longer serves as either meaningful competition or a useful yardstick to measure the performance of private for-profit insurers. Sen. Charles Schumer (D-NY) has offered what critics label "public option lite," under which the public plan could not be supported by tax revenues or other government funding, but yet would be obligated to amass the huge financial reserves that are required of longstanding private insurers. Under Schumer's approach, doctors who participate in Medicare could not be compelled to take part in the public plan.

"Baucus specifically asked Schumer to come up with a compromise version of the public option," explained McCanne. "He wants a version that [influential Republican Senator Charles] Grassley will not oppose."

If the Schumer version is adopted, "It is likely that the administrators of such a public option would have difficulty in creating a popular plan," McCanne stated. "One of the reasons that insurers converted to for-profit corporations was to have access to capital markets. Where would a start-up, non-profit public plan obtain adequate reserves. Unfortunately, I think that most of the Democrats accepted the conclusions of the industry-purchased Milliman [consulting firm] study that concluded that the unfair competition was from unfair Medicare price controls. The Democrats have even recommended price increases for the public option to create a 'level' playing field," he noted. "Also, Schumer's version would eliminate almost all of the administrative advantages of Medicare—and continue to ignore the administrative burden on the providers caused by a multi-payer system."

Other Democrats are floating proposals that would weaken the public plan even more severely, such as requiring that it be separate from Medicare. This approach would be particularly irrational, as it would forfeit an opportunity to shore up Medicare by infusing the plan with millions of younger and presumably healthier patients, thereby spreading the risk of covering the 40 million elderly recipients currently enrolled in Medicare.

But where some progressives like Hacker and Kuttner are pushing for a vigorous public option as crucial to reform and, especially for Kuttner, a step toward an eventual single-payer plan, members of the Physicians for a National Health Plan are concerned that insurers could distort the public option's intentions. PNHP leaders believe that insurers will adopt a strategy aimed at hanging on to younger, healthy patients under private insurance plans while using "lemon-dropping" ploys (e.g., delays in authorizing coverage, denials of claims) to convert the public plan into a dumping ground.



Further, PNHP calculates that the public option will capture only about 9 percent of the administrative savings that a single-payer system would generate. Since doctors would still have to deal with the demands of dozens of different insurers, each with distinct policy coverage, authorized drugs, and other requirements, even a substantial enrollment in the public option would create only limited savings.

But such issues are far from the minds of the key policymakers like Obama, Baucus, and Schumer.

Obama recently announced that the individual mandate will have a "hardship waiver" so that low and moderate-income people can avoid paying the high cost of insurance by going without any coverage at all. It is also likely that small businesses will be relieved of the responsibility of providing insurance coverage.

Kuttner fears that the combination of intransigent insurer opposition and already-emerging loopholes will doom a Medicare-based public option. "In the push to get legislation in the face of fierce industry and Republican opposition, a good public plan could well be tossed overboard," he wrote. Over the next few years, "That would leave a legacy of expanded coverage, but a time bomb of exploding costs resulting in under-insurance and a squeeze on actual care."

Possible Scenarios

If a strong public plan is jettisoned in this summer's legislative infighting, several political scenarios could emerge. One outcome is passage of watered-down reform, as Kuttner mentioned. "The Progressive Caucus in the House has taken a position that a public option must be in the bill," noted McCanne. "But the worthless Schumer version would allow the progressives to save face and support the final bill. And Grassley will be able to accept the Schumer version as a tradeoff for other major policy concessions that he wants."

Obama and key Democrats have acceded to the notion that the health care bill must have bi-partisan support, despite the intransigent stance of most Republicans and their extremely close financial ties to the insurance industry and medical-industrial complex. Republican leader Mitch McConnell warned bluntly June 5, "The key to a bi-partisan bill is not to have a government plan in the bill." Yet Sen. Ron Wyden (D-OR) reports that Obama believes that for successful health care reform "that does not get repealed in a couple years, you need bi-partisan support" (*NYT*, 6/6/09). But the prospect of winning over many Republican votes is dim, based on indicators like the fact that just three House Republicans voted for Obama's stimulus package.

As the *Times* explained, "If he insists on a big-government plan in the image of Medicare, he could lose any hope of Republican support and ignite an insurance industry backlash. If he does not come up with credible ways to pay for the plan, which some estimates could cost more than \$1 trillion over 10 years, moderate Democrats might balk." However, by retaining for-profit insurers in the system, Obama forfeits \$400 billion annually in savings on insurance-imposed overhead costs alone, or \$4 trillion over the decade. Thus, a single-payer plan would be much more fiscally prudent at a time of escalating government deficits, caused chiefly by the Iraq and Afghan wars, the ongoing bailout of the financial industry, and stimulative public spending. But, of course, a single-payer system would be infinitely more objectionable to insurers and their allies in both parties than even a voluntary Medicare-style public option. The distorted nature of the current political discourse is signified by the fact that advocates of the limited Medicare-style plan find themselves trying to counter claims that the public system will be, horror of all horrors, unfairly efficient. As the *Times* reported (6/6/09), "Critics argue that with low

administrative costs and no need to produce profits a public plan will start with an unfair pricing advantage."

Despite the narrow and bizarre constraints of elite political and media debate, PNHP President Oliver Fein remains hopeful that the signs of escalating grass-roots pressure for single-payer may transform President Obama's position. "What makes a transformational president? It's those social movements that really aided in the election making the extra step," said Fein.

While the single-payer movement has not yet approached the strength and militancy of any of those movements, many progressives in Congress may become infuriated with the hollowing-out of health care legislation at the hands of the insurers and their allies in Congress. Fein adds, "At that point, we can tell these members of Congress, you're not getting the public plan, so why not support single-payer?"

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