

## New Yorker Article

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### CONSUMPTION

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Perhaps you have been wondering who or what is to blame for the high cost of medical care in this land of ours—and, more broadly, for the ungainly, unjust mess that is the American health-care system. If so, wonder no more. Your government has fingered the culprit: it's "the vast majority of Americans."

The perp having been collared, the trial held, and the verdict rendered, only the sentencing phase remains. Providentially, our leaders have come up with a punishment that fits the crime. We, the guilty, are to be condemned—or invited, but in any case for the rest of our natural lives, without possibility of parole—to turn over our bodily well-being to "consumer-directed Health Savings Accounts" in conjunction with "high-deductible health policies."

This judgment was handed down last Monday, in the form of an article on the Op-Ed page of the *Times*. The piece was no Dowdy jestfest or Friedmanesque memo-to-the-mullahs, and not only because of the dreariness of its style and the banality of its content. Its author, Allan B. Hubbard, identified as "assistant to the president for economic policy and director of the National Economic Council," has lately emerged as the White House point man on health policy, and, in subsequent days, his Op-Ed proved to have been the overture to a veritable symphony of spin conducted by President Bush himself, including an Air Force One ride to Bridgeport, Connecticut, for a stagy "Panel on Health Savings Accounts."

Hubbard's article, headlined "THE HEALTH OF A NATION," begins with a frank-sounding acknowledgment that "in the past five years"—that is, since the present Administration took office—"private health insurance premiums have risen 73 percent," with the result that "some businesses" have dropped coverage altogether. "What is driving this unsustainable run-up in health insurance costs," Hubbard asks, "and how can we make things better?" Then comes what bloggers call the money quote:

Health care is expensive because the vast majority of Americans consume it as if it were free. Health insurance policies with low deductibles insulate people from the cost of the medical care they use—so much so that they often do not even ask for prices.

Can this really be the Administration's view of the health-care crisis? That its root cause is that Americans are (a) malingerers and (b) freeloaders who perversely refuse to go comparison shopping when illness strikes? That we're *overinsured*? Hard as it is to believe that this is what they say, it's even harder to believe that this is what they believe.

Health care is indeed expensive, but not because people are too quick to call the doctor when they experience a scary symptom or merely an annoying one, and not because some of them may bridle at entrusting their health to the lowest bidder. Throughout the Western world, health care is expensive, first of all, because it is expensive, and is bound to get more so as populations age and medical technology advances. Indeed, it *should* get more expensive, both in absolute terms and as a proportion of national income, because what it aims to provide—healing, the relief of suffering, the staving off of death—is of such inestimable value.

American health care is the most expensive on earth, but this, too, has little to do with overindulgence in seeking medical attention. (Overindulgence in cheeseburgers is another matter.) It has a lot to do with the waste built into what Paul Krugman calls our crazy-quilt health-care system, which has a lot to do with the fact that so much of that system is private rather than public, which in turn has a lot to do with two other factors. One is historical: during the Second World War, industry (with prodding from organized labor) got around wage controls by offering workers health benefits in place of cash, thus saddling the United States with “employer-based” private health insurance—a system now in slow-motion collapse under the competitive pressures of globalization. The other is institutional: even though there has long been popular support here for universal, government-run health care, as there is in Europe and Canada, America’s fragmented political system—riddled with weak points where well-organized, well-financed minorities can thwart the unfocussed will of a majority—has been able to deliver only for seniors and, less generously, for the poor.

Medicare—a mixed system, under which the insurance function is socialized while the care itself remains in private hands—dedicates two per cent of its resources to administration. By contrast, the private health-insurance industry spends a fortune—more than ten per cent of its income—on administrative dreadnoughts devoted largely to vetoing treatments, sloughing off sick or potentially sick clients, and scheming to stick someone else with the bill. In the United States, we spend fifteen per cent of our gross domestic product on health care, close to six thousand dollars per person. The French and the Canadians spend ten per cent of G.D.P., about three thousand dollars per head. Yet their “health outcomes,” measured by indices like longevity, are better than ours. If they spent the kind of money we do, they’d live forever.

Hubbard—who, by the way, is a finalist to be Bush’s next Secretary of the Treasury—is an initiate of the cult of the market, which he evidently regards as the fundamental model for all human relations. For him, sick people who require care are “consumers.” That word and its derivatives appear ten times in the eight hundred and fifty words of his *Times* piece. (“Patient” appears once. “Sick,” “ill,” and “under the weather” do not appear at all.) Accordingly, the solution that he and Bush are pushing—so-called health savings accounts—puts the onus on “consumers” to fend for themselves in the medical “marketplace.” It’s probably unnecessary to add that this solution would solve nothing. It would be yet another gift to people in the higher tax brackets, would undermine traditional insurance by pulling young and healthy people out of risk pools, and, with a fine evenhandedness, would discourage people from going to the doctor for real and imaginary illnesses alike. This is a worthy follow-up to the Administration’s prescription-drug program for seniors, another excrescence of market cultism. The elderly had hoped for a straightforward benefit that would have allowed them to acquire, at some affordable price, the medicines their doctors prescribed. What they got was a parody of “choice,” sadistic in its complexity, which forces them or their children or caretakers to game out which of dozens of private “plans” might give them access both to the medicines they need now and the ones they might unpredictably need in the future. The solicitude their government might have bestowed on them was reserved instead for the insurance and pharmaceutical industries. The Administration’s message to the old and sick is the same as its message to the country after the September 11th attacks: Go shopping. Well, caveat emptor.

— *Hendrik Hertzberg*

The article referred to above:  
OP-ED CONTRIBUTOR

# The Health of a Nation

By ALLAN B. HUBBARD

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Washington

IN the past five years, private health insurance premiums have risen 73 percent. Some businesses have responded by dropping healthcare coverage, leaving employees uninsured. Other employers pass the costs on to workers, both by raising co-payments and premiums and by denying workers the wage increases they need to afford these higher prices.

What is driving this unsustainable run-up in health insurance costs, and how can we make things better?

Health care is expensive because the vast majority of Americans consume it as if it were free. Health insurance policies with low deductibles insulate people from the cost of the medical care they use — so much so that they often do not even ask for prices. And people don't recognize the high premium costs of this low-deductible insurance because premiums are paid by employers. Finally, the tax code subsidizes these expensive, employer-purchased insurance policies.

To control health care costs, we must give consumers an incentive to spend money wisely. We can do this by encouraging the purchase of high-deductible policies and providing the same tax benefits for out-of-pocket health spending that employer-provided insurance enjoys. The overall cost to the consumer will be no greater than it is now and, in most cases, significantly lower. And no consumer is better than the American consumer at driving prices down and quality up.

The president has proposed a package of reforms that will spur such changes by building on the success of consumer-directed Health Savings Accounts and the insurance policies that go with them. Health Savings Accounts allow people to save money tax-free to pay their out-of-pocket health costs, as long as they have high-deductible health policies to cover catastrophic expenses. Enrollment in these accounts has grown rapidly since their introduction in 2003, with more than three million people now contributing to them.

The president's reforms would make these plans even more attractive by providing payroll tax relief to those who hold Health Savings Accounts (currently the accounts are only exempt from income taxes); giving employers more incentive to offer and contribute to the accounts; and making it easier

for consumers to get the information they need to make good decisions about the health care they purchase.

The accounts aren't just good for the health care system — they're a good deal for American families. Catastrophic policies have affordable premiums that bring health insurance into reach for lower-income families. And the low premiums compensate for most, if not all, of the policies' higher deductibles.

Consider the following two real policies offered by the same insurer in Columbus, Ohio, for a healthy family of four earning \$50,000 a year. A Health Savings Account policy has a premium of \$3,750, a deductible of \$3,000, and co-insurance of 20 percent up to a maximum of \$5,000. Meanwhile, a traditional Preferred Provider Organization policy has a premium of \$5,800, a deductible of \$1,000, and 10 percent co-insurance up to a maximum of \$2,000.

If the family's medical bills totaled \$1,000, they would save \$1,900 by choosing the Health Savings Account policy. Under the president's policy proposals, the savings would jump to \$3,200. Even if something catastrophic confronted the family with \$10,000 in medical bills (fewer than 20 percent of families face costs this high in a year), under the current law, the family would pay only \$400 more by choosing the Health Savings Account rather than the P.P.O. Under the president's proposals, they'd save \$1,600. That's why 40 percent of these Health Savings Account-based policies are purchased by families with incomes lower than \$50,000.

These affordable policies are also an attractive option for employers that might not otherwise provide health insurance. With premiums rising, only 60 percent of companies offered their workers health insurance in 2005, compared with 69 percent in 2000. A recent study showed that a third of the small businesses offering policies based on Health Savings Accounts had not previously offered their employees insurance at all.

Imagine how the world might look if patients, armed with information about the price and quality of health care, set out to find the best possible value. We saw this with Lasik eye surgery, a procedure not covered by most insurance plans. Its price fell by almost half, and the number of procedures performed increased 10-fold from 1998 to 2002, as more doctors began providing the service and customers shopped around. Informed consumers could bring down costs throughout the health care industry by choosing only high-value care, making providers raise quality and lower prices to compete for their business, and spurring the development of the kind of cost-effective innovation we see in other parts of the economy.

Health Savings Accounts will help unleash this consumer power. This makes them both a good deal for the people who enroll in them and good medicine for the system as a whole. They give consumers more choices while strengthening their role in reducing waste, promoting competition and increasing value. By enabling consumers and doctors to make health care decisions that are right for them, we can greatly improve the effectiveness, affordability and value of our health care spending.

*Allan B. Hubbard is assistant to the president for economic policy and director of the National Economic Council.*