



## ObamaCare Ignores Incentives, Flunks Cost Test: Caroline Baum

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Commentary by Caroline Baum

July 21 (Bloomberg) -- The more we learn, the less we like what we see. Maybe that's why President **Barack Obama** wants a health-care reform bill signed, sealed and delivered to his desk by the time Congress leaves for its August recess.

We're talking about 17 percent of the U.S. **economy**, or about \$2.4 trillion. It's something that will cost an estimated \$1 trillion more over the next 10 years, without any of the advertised cost savings, according to **Douglas Elmendorf**, chairman of the non-partisan Congressional Budget Office.

Yet Obama wants lawmakers to vote "yea" on a 1,000-page piece of legislation that they haven't read, don't understand and can't possibly have given adequate consideration beyond the implications for the 2010 election.

Is this what you really want for the country?

Before I dip a toe into the debate, let me state that I have no expertise or even a comparative advantage on the subject of health care. I can barely manage my own, not to mention my **dog's**.

What I do know is that there are some underlying problems that have to be addressed to make the current or any overhauled system sustainable on a long-term basis. The main one is incentives.

It's always easy to spend someone else's money. I have friends and family who run to the doctor with a sore throat or sniffle. If it cost more than the \$20 co-pay, they would probably take two Tylenol and leave it at that.

Any plan to reform health care has to address the misplaced incentives that encourage the misuse and overuse of medical services.

### Creating Incentives

"The opening salvo can't be about expanding coverage or proposing something that costs more," says **Jim Glassman**, senior U.S. economist at JPMorgan Chase & Co. "It has to be about getting more out of the scarce resources we have in health care."

The Obama plan fails to focus on incentives that would drive cost savings. Economists roll their eyes when they hear the administration talk about a government option that would create competition among private insurers, Glassman says. "They know the government will distort private alternatives."

No wonder members of Obama's **own party** are balking.

It's not as if the choice is between ObamaCare and nothing. There are many ideas for providing less expensive, more efficient health-care reform -- both proposed and up and running.

Companies such as Safeway Inc. have instituted programs to change employee incentives and provide more accessible and cheaper care.

### Government Responsibility

Operating under the assumption that the biggest share of health-care costs are "a direct result of behavior" and confined to a few chronic conditions that are often preventable, Safeway encourages "good" behavior (stopping smoking, losing weight) by lowering the premiums employees pay for achieving certain goals, according to chief executive **Steven Burd** in a June 12 Wall Street Journal **op-ed**. "We believe that personal responsibility and financial incentives are the path to a healthier America," Burd wrote.

A **bill** coming out of the Senate Health, Education, Labor and Pensions Committee, which Senator **Edward Kennedy** chairs, includes language suggesting that charging different premiums isn't allowed, according to **Michael Tanner**, senior fellow at the **Cato Institute**, a libertarian Washington think tank.

#### Baum's Two Cents

As a layman, I can think of some ideas worth pursuing. We already provide health care to the uninsured. It's called the emergency room, which is neither efficient nor cost-effective. What about subsidizing walk-in clinics in inner cities? The government could create incentives -- there's that word again -- for young doctors to staff them, providing tuition reimbursement in exchange for a specified time of service.

How about taxing junk food? (No amount of bundled junk will qualify for a prime rating!) Taxpayers are underwriting medical care for diseases that stem from obesity, for example. Why not incentivize responsible behavior?

There is little focus on personal responsibility and changing behavior in the bills making their way through Congress. To the contrary, "the legislation significantly expands the federal responsibility," CBO director **Douglas Elmendorf** told the Senate Budget Committee on July 16. In fact, Obama has taken taxing employer-provided health benefits, which would change behavior, off the table, according to Tanner.

Obama has said he won't sign a bill that expands the **deficit**, yet Elmendorf said CBO found no significant cost-savings in the measures under consideration.

#### CBO Kibosh

That assessment has put the president and his economic advisers on the defensive. On Fox News Sunday, host **Chris Wallace** asked Obama budget director **Peter Orszag** whether proposed tax increases to cover the 46 million unemployed Americans would be a job-killer. (In the House bill, surtaxes on those high-income earners would lift marginal rates to more than 50 percent in 39 states, according to the **Tax Foundation**.)

Orszag, bobbing and weaving, said the "most important thing for small businesses is getting the economy back on its feet."

Uh-huh. And that means what?

Orszag and his boss are going to have to do better. Americans voted for Obama on the promise of "change you can believe in." Our elected representatives should demand something more concrete before they rewrite our future in ways we will come to regret.

(**Caroline Baum**, author of "Just What I Said," is a Bloomberg News columnist. The opinions expressed are her own.)

To contact the writer of this column: Caroline Baum in New York at [cabaum@bloomberg.net](mailto:cabaum@bloomberg.net).

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