

Dear Dai Lian,

Here are my responses to your questions. I found them very interesting.

I hope it helps you to write an interesting article.

Best,

Juergen

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My name is Dai Lian, a journalist of China Hospital CEO, a magazine just like Modern Healthcare in America. We have met each other in the 7th World Congress on Health Economics in Beijing, last July. Hope you still remember it.

Now I am preparing an article about the passed healthcare bill, I really want to have an interview with you.

The questions I am interested in are:

1. Do you agree with Obama's plan? Would you please comment on the process that was used to pass the bill?
 - a. I do agree with parts of the Obama plan. Some of the restrictions on insurance companies seem reasonable and reduce the risk of patients (e.g. insurance companies are not allowed to drop coverage after the onset of an illness, patients with pre-existing conditions will be able to buy cheaper insurance than right now, etc.) Also, some pilot programs to implement cost reducing schemes into the health care system are financed by the bill.
 - b. The process to pass the bill is due to the political realities in the Senate (i.e. a filibuster proof 61 majority was needed, then the senatorial race in Massachusetts made going back to 61 votes impossible, so they started passing the bill under the reconciliation provision. Without this "trick", health care reform could not have been passed in the Senate. This reconciliation has been used many times before, but never for such a substantial bill.
2. It seems that healthcare reform is the most important issue for Obama in his presidency. Why is healthcare reform so important for Obama and the Democrats? And what is the meaning of healthcare reform for the American economy and society now?
 - a. When Obama campaigned for the Presidency he ran on healthcare reform and on ending the war in Iraq and Afghanistan (during the Presidential race). Health care

reform is central to Democrats and has already been attempted unsuccessfully under Clinton. The situation in the health care sector, especially the insurance situation, is criticized unanimously. The argument is about how to best reform this situation. Democrats favor a larger government role and more restrictions for insurance companies, whereas Republicans favor market solutions. Both parties realized a while ago that reform is needed since American households (and other stakeholders like doctors, etc.) are not satisfied with the current situation. Under Bush for instance, Health Savings Accounts (HSAs) have been introduced with the idea to make insurance more affordable and to bring down costs.

- b. Since Obama committed to the health care reform early on, failing on health care would severely damage his presidency and endanger his political goals and many other reforms on his agenda (e.g. reform of the financial system, emissions control, immigration reform, education reform)
 - c. There is too much risk in the current health care system for Americans. In addition, the mixed private-public system (private for workers, public for retirees and poor people) is very expensive and unsustainable. Medicare/Medicaid is already in deficit for a couple of years and health care costs grow by roughly 7 percent a year and thus far outgrow GDP or the rest of the economy. That is wages do not grow at the same rate, so that insurance premiums keep increasing as a share of a typical families income. This is unsustainable and will eventually bankrupt the State and families if nothing changes. In America a severe health problem of a family member exposes the entire family to large financial risk. This situation is without comparison among western countries.
 - d. Obama connected the fixing of health care with the balancing of the budget in the long run. So without fixing health care, there is no possibility of balancing the budget in the long run. This is obviously true if one considers the deficit in the Medicare system. It is just questionable whether the current bill is able to “fix” or “control” the solvency of Medicare/Medicaid. Many commentators are very skeptical about this (see for instance Holtz-Eakin below).
3. In your opinion, what is the biggest problem of the health-care system in America? And if the bill is passed, to what extent these problems could be solved? What problems could not, and what new problems could be caused by the passed bill?
- a. The three biggest problems are the cost explosion, the number of uninsured Americans, and the risk exposure. The bill tries to tackle all three of these. It extends insurance coverage (mostly by extending Medicaid) to about 30 million more Americans (that still leaves about 20 million without coverage, roughly a third of those are illegal immigrants). Second, the bill promises to reduce costs. There are attempts to cut costs in Medicare by better monitoring Medicare payments and cutting down on Medicare fraud. Then there are provisions in the bill that fund pilot projects in Hospitals to find ways to change the predominant fee-for-service remuneration system which is very expensive as it rewards doctors by the number of treatments prescribed and not by the health outcome of their patients.

- b. As an aside, the stimulus package that was passed last year contained funding for the implementation of electronic health records. Although e-health records create initial costs, there are some estimates by RAND that promise large cost reductions due to e-health records. How large these reductions will really be is not clear at this point.
 - c. The old problem of sustainability of Medicare/Medicaid is still not resolved in the current bill. Medicare already runs at a deficit and the expansion of Medicaid (with partial funds from Social Security which faces a similar, though less severe, sustainability problem) will not reduce the deficits in those programs.
 - d. In addition, it seems that the current bill does not account for all the costs so that the real price tag of the bill could be larger than the purported 950 billion dollars over the next 10 years. (see: Holtz-Eakin, former director of the CBO): <http://www.nytimes.com/2010/03/21/opinion/21holtz-eakin.html> from last weekend NYT).
- 4. Though the bill is passed, we also saw the failure of Democrats in Massachusetts where the reform has been run; and we also saw that on 10th March, Virginia bans mandatory health insurance. Why they happen? And how they will influence the whole reform?
 - a. The election in Massachusetts happened at a particular bad time for Democrats when the health insurance bill was not yet well communicated to the public. So there was a lot of misinformation and uncertainty (i.e. fear) around. Together with a very weak Democratic candidate, the result was that the Democrats lost their filibuster proof 61 votes majority in the Senate. Once the reform is in place and it is clear that the Government is not completely overtaking the health care sector (as many opponents of the reform have claimed), the public's opinion might shift again and favor the Democrats. Currently polls show that the reform gains some momentum.
 - b. I do not think that single States will be able to block the mandate in their state.
- 5. I noticed that there are still so many American people who disagree or even against Obama's plan, what are they worrying about: Tax will be much heavier? Foreign migrants who don't have jobs will occupy too much public resources? And so on... How the attitudes (disagreement) relate to American history, culture, and politics?
 - a. There's a lot of politics happening around this reform. As I said earlier, the public's mood might swing soon. When Medicare was originally introduced in 1965 it faced stiff opposition. When republicans ran against it a year later they lost the election because Medicare became more popular within a year. A similar situation could play out with the current health care bill. So it is not at all clear, whether Democrats are really being hurt in the fall.
 - b. Also, even when some polls said that 47 to 45 percent of Americans are against the health care bill, the polls also said that Americans were in favor of many of the changes in the bill when they had to evaluate the points in the health care bill one by one. Lately, the poll numbers are rising again in favor of health care reform. So this is all very volatile at the moment and might change until the midterm elections in the fall.

6. For the health-care reform, a middle-class woman wrote that, "What I see is a nation split in two. The haves living in a state of fear of giving away any of what they have. And the have-nots, so overburdened with the cost of simple daily life that they're actually living in fear." Do you agree with her?
 - a. The gap between rich and poor is widening in almost all industrial countries, but especially in the U.S. This is sometimes termed the "erosion of the middle class". The current bill would benefit the middle class, whereas higher income groups (above \$200,000 annually and above) would experience tax increases.
 - b. American households are indeed exposed to higher risk than say European households, where health insurance is not necessarily coupled with employment.

7. Someone thinks that, Obama's proposed solution to our healthcare non-system, which is a national disgrace, will pour billions of dollars into the pockets of the very same people who caused the problem in the first place: insurance companies? Do you think so?
 - a. The newly created insurance exchange programs are government subsidized. The government will give funds to people with pre-existing conditions who cannot buy insurance otherwise and who do not already receive insurance from their employers, so that these people can buy private health insurance. One could ask, why doesn't the government insure these people directly, that would be cheaper, since it cuts out the insurance company profits? (this would have been the function of the infamous public option that was part of the original House bill but was dropped later in the Senate version of the bill). So to some extent the above statement is true.
 - b. On the other hand the bill contains new restrictions for insurance companies that could reduce profits and result in better more stable insurance coverage for Americans.
 - c. From an economist's point of view the question is whether the private health insurance market suffers from so-called market failure. If that is the case, then even for a classical or neo-classical economist, the government can have a beneficial role in improving welfare. The information asymmetries that are present in the health care market (i.e. moral hazard and adverse selection) do point towards possible market failures, so that tighter regulations might indeed be able to improve welfare.

8. To achieve the reform goal of Obama, what should be done after the bill is passed? (For example, to control the cost, what should be done?)
 - a. Change the payment system and move from fee for service to other payment systems, the simplest is probably a salary system for doctors.
 - b. Introduce electronic health records to cut costs and medical mistakes in the long run.
 - c. Monitor Medicare and reduce fraud in the Medicare system
 - d. Tort reform. Lawsuits against hospitals and doctors drive up insurance premiums for malpractice and increase the price of medical services. It also leads to defensive medicine, which is not always best.

- e. Increase the number of primary care physicians (they are cheaper than hospitals), especially since many doctors seem to drop Medicaid patients due to low reimbursement rates. Medicaid rates might have to increase in order to fix that, which needs to be financed somehow.
- f. Reward healthy behavior, try to stop the obesity epidemic especially among American children