

## Health Reform Passes the Cost Test – Wall Street Journal

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By DAVID M. CUTLER

Many people are worried that the health-care reform proposed by President Obama and congressional Democrats will fail to bend the "cost curve." A number of commentators are urging no votes because of this, and Republicans have asked the president to start health reform over, focusing squarely on the issue of cost reduction. These calls overlook the actual legislation. Over the past year of debate, 10 broad ideas have been offered for bending the health-care cost curve. The Democrats' proposed legislation incorporates virtually every one of them. Here they are:

- Form insurance exchanges. These would help curb underwriting and inefficient marketing practices that raise costs in the small-group and individual insurance markets. This is addressed in all the House and Senate bills, and the president's proposal. Grade: Full credit.
- Reduce excessive prices, including those of supplemental plans enrolling Medicare beneficiaries. The president's proposal reduces these Medicare Advantage overpayments and others to different providers, even in the face of Republican claims that reducing such overpayments is tantamount to rationing care for seniors. Grade: Full credit.
- Moving to value-based payment in Medicare. Both Democrats and Republicans have called for moving from a system where volume drives reimbursement to one where value drives reimbursement. The president's proposal includes virtually every idea offered for doing this. Grade: Full credit.
- Tax generous insurance plans. Health-insurance benefits are excluded from income taxation, providing incentives for excessively generous insurance. Many economists have proposed capping the tax exclusion to reduce these incentives. The president's proposal taxes some of the most generous policies, though it has deferred the date by which these taxes take effect. Grade: Partial credit.
- Empower an independent Medicare advisory board. Interest-group politics intrudes too deeply within the mechanics of Medicare policy, raising program costs and hindering efforts to improve care. Despite powerful opposition, the president proposes this independent board and a process for fast-tracking such recommendations through Congress. Grade: Full credit.
- Combat Medicare fraud and abuse. The administration has started an active task force to combat these problems. Other ideas to reduce fraud and abuse were presented at the recent health-care summit, and were incorporated in the president's proposal. Grade: Full credit.
- Malpractice reform. Defensive medicine is a small but important driver of medical spending. The reform proposal makes some headway, encouraging states to experiment with alternative mechanisms to reduce malpractice burdens. More could be done—for example, specialized malpractice courts and a safe harbor for physicians practicing

evidence-based medicine—but the president's proposal makes a start. Grade: Partial credit.

- Invest in information technology. Many studies suggest savings in the tens of billions of dollars from IT investment. The stimulus bill passed a year ago contains funds to wire the medical system over the next few years, and the administration is supplementing this with significant funds to analyze the comparative effectiveness of different treatments—even in the face of "death panel" claims. Grade: Full credit.

- Prevention. The president's proposal includes significant public-health investments, provides new incentives for physicians to focus on preventive and chronic care, and opens Medicare to finding new ways of supporting prevention. The only area of weakness is the lack of a junk food tax or tax on sugar sweetened beverages. Grade: Partial credit.

- Create a public option. A public insurance option would provide competition for insurers in areas that are nearly a monopoly and provide a path for reforms in Medicare to expand readily in the under-65 population. The public option was eliminated because of Republican opposition, however. Grade: No credit.

So reform gets full credit on six of the 10 ideas, partial credit on three others, and no credit on one. The area of no credit (a public option) is because Republicans opposed the idea. One area receives only partial credit because of Democratic opposition (malpractice reform) and two other areas reflect general hesitancy to increase taxes (taxing Cadillac plans and taxing drivers of obesity).

Why is reform viewed so negatively? In part, it may reflect the perfect being the enemy of the good. If the only passing grade is 10 out of 10, then reform clearly fails. But given where the Republican Party is on a public option, no reform will get a passing grade. If both parties were willing to raise taxes and Republicans negotiated malpractice reform for their overall support, we could probably get a nine out of 10.

Reform is also viewed negatively because official scorekeepers do not believe anything on this list other than reducing prices will save much money. The Congressional Budget Office has consistently estimated that policies built around changing incentives and thus encouraging more efficient care will not have any effect on cost trends. My own calculations, mirrored by other observers and a host of business and provider groups, suggest that the reforms will save nearly \$600 billion over the next decade and even more in the subsequent one.

Of course, no one knows precisely how much medical spending increases will moderate. But one cannot doubt the commitment to try. What is on the table is the most significant action on medical spending ever proposed in the United States. Should we really walk away from that?

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