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Healthcare's John Galt

Written by Christine Nikol

After Obama won the 2008 election, copies of Ayn Rand's *Atlas Shrugged* were flying off the shelves even faster than usual. It seems readers saw something familiar in the President's proposed state-centered policies and the novel's dystopian vision of America – an America where wishful thinking had run the country into the ground. Bookstores across the country capitalized on this and asked Rand's iconic question "Who is John Galt?" on their book displays.

In the novel, the hero Galt and his followers retreat to a hideaway where they wait for society to collapse. But in America, regular citizens have organized in masses against Obama's vision of socialized medicine, and they've embraced their own John Galt – a Texan scholar-activist named John Goodman. Known to many as the inventor of Health Savings Accounts (HSAs) and a key figure in defeating Hillarycare in the 90's, Goodman has become the intellectual heavyweight of Obamacare's opponents and his arguments are increasingly embraced by the new "Repeal and Replace" movement.

According to Goodman, the real problems with the bill are only just starting to emerge. As soon as it was set to pass, Caterpillar announced the bill would cost them \$100 million in its first year alone. And Verizon told its employees their costs would go up almost immediately because of the 40% excise tax the bill puts on the kind of high-end plans the telco giant provides. But looking ahead it's clear to Goodman that the

legislation's inverted incentives would result in much more than changes to the healthcare system and the company costs but that the impact on the economy would be disastrous: labor dislocation, hiring freezes, economic assaults on lower paid workers, and spikes in unemployment.

In a "the health alerts" email Goodman listed last week the troubles ahead for the economy and for Obamacare advocates:

1. People will be required to buy a product whose price will be rising at twice the rate of growth of their incomes and they will be barred from doing many of the things needed to control these costs.
2. A bizarre system of subsidies will profoundly disrupt the labor market, leading to massive layoffs, contracting and outsourcing.
3. A health insurance exchange will give health plans incentives to attract the healthy and avoid the sick; and after enrolment, to over-provide to the healthy and under-provide to the sick.
4. A weakly enforced individual mandate will give people incentives to game the system – remaining uninsured while healthy and obtaining insurance only after they get sick; choosing limited-benefit plans while healthy and scaling up to richer plans after they get sick.

TAKING IT TO THE CROWDS

As opposition to Obamacare intensifies in anticipation of the mid-term elections, and the movement to “Repeal and Replace” grows, Goodman will continue to deploy the tactics that brought him to the forefront of the legislative struggle. When opposition began to build with the tea party demonstrations last summer, Goodman gave the movement intellectual heft and a media high point. Teaming up his think tank — The National Centre for Policy Analysis (NCPA) located in Dallas Texas with Salem Radio in September 2009 — he got live media coverage and 1.3 million signatures in a petition against the bill that crystallized the opposition.

“Combining new media with talk radio- it’s never been done before” says Goodman, “it was the largest online petition ever delivered to Congress”. According to Lee Habeeb, Salem Radio’s network director and a leading talk radio producer, “What John is great at is taking big ideas and making them understood”, and it’s making the public understand the bill that was his goal from the start. Habeeb explained that they had seen the healthcare bill coming early on – “I knew Barack Obama was serious. John Goodman knew he was serious... we knew what they were going to do and we knew who ‘they’ were. We knew what the agenda would be.” So they took it to the airwaves: “we really worked to deconstruct the numbers before they hit us so that people would be armed for when the swing came”.

As the fight reached the breaking point, the NCPA and Salem radio also launched their “million email” campaign, getting over 1 million citizens from all 50 states to send emails against the bill to their Congressmen. To Habeeb, the bill was “a catalyst... healthcare was an over-reach, this is a call to arms” — and Goodman provided the arms.

One of the reasons Goodman has been so effective at rallying people to oppose the healthcare bill is that aside from being an academic armed with facts and numbers, he’s also engaged the public in media-savvy ways. His blog on the NCPA website went from 48th

to 8th as the debate heated up. After Paul Krugman took a joking comment on his blog seriously and attacked him in the New York Times, Goodman installed a “satire button” for Krugman and any other sombre critics. He wanted readers to make it clear when they were mocking the situation, underscoring how much of a minefield the healthcare debate has become.



**Dr. John Goodman,
"Father of the HSAs"**

GOING TO CORE ARGUMENTS

But although he embraces a media culture that many academics avoid, Goodman doesn’t just go for the quick hit: he takes the time to go to the opposition’s core arguments. He took on Michael Moore’s Sicko movie in 2007 with rigor, breaking it down piece by piece, dispelling typical healthcare myths by offering facts on foreign government’s healthcare that Moore had ignored. Myths like the notion that people abroad are able to obtain better healthcare because their country calls healthcare a “right”: but talking about healthcare as a fundamental “right” in theory doesn’t translate into results in practice – waiting times abroad are staggeringly long. In Britain, about 1 million are waiting to be admitted to hospitals at any one time. And as for Cuba, Goodman dryly pointed out that Marxist abstraction about a “right to care” doesn’t come with a “right to an MRI or heart surgery.”

Then, there's the myth that nationalized healthcare is better, because people in some countries with state-run systems are healthier. Advocates of a government takeover of medicine often argue that life expectancy is higher and infant mortality lower where healthcare is state-run and that therefore national systems are better. Such comparisons, Goodman says, are misleading for three reasons. First, comparing European countries that are homogeneous and the US that is a heterogeneous nation with high and low incomes and social conditions — is to compare unlike things. Compare a European country with parts of the US that are similar, however, Sweden to Minnesota, and the numbers are similar. Second, life expectancy and infant mortality are affected by lifestyle choices like diet, exercise, and alcohol far more than health care delivery, so whether healthcare is state-run or private is a secondary issue. Third, any comparison of survival rates for diseases where health care assistance can make the difference like cancer, diabetes and hypertension shows the US system simply walking away with the honors.

He also challenged the notion of more “fairness” in nationalized systems, pointing out that in state-run systems healthcare costs are redirected away from those who need it most because of political incentives. People often say that foreign healthcare is more “fair” because healthcare costs are spread more evenly abroad — but healthcare costs should be allocated disproportionately: by going to the sick, who need it most. In America, only 4% of people consume half of health care costs, which is actually the way it should be: the truly sick get the attention, that's what health care systems are for. In state run systems, however, politicians have an electoral incentive to spread money across their voters — and away from the very sick, who are a minority, and who often cannot vote. In making the point that government run-systems are politicized and that the money goes where the votes are, he notes that the real victims in state run systems are the very people politicians claim they are trying to help — the poor, the elderly and those who live in rural areas.

NUMBERS, WORDS AND ACTION

But even when opposing people like Moore, Goodman stays away from the kind of firebrand rhetoric that often surrounds healthcare— which may be why he's gone under the radar of major media outlets. According to former Delaware governor Pete Dupont, “Dr. Goodman doesn't enrage people [...] They might not agree, but they listen. When he's done, people with either say, ‘That's right’ or ‘That's interesting, and I'll think about it.’” He attracts both libertarian and traditional conservatives, but he approaches people of all political folds, doing Congressional briefings for everyone willing to listen. He does this based on arguments grounded in research and numbers, including some that have not yet been really picked up by the opposition. .

So “Who is John Goodman?” A telegenic Texan academic, he started his career defending market-based economics at Columbia. He went on to teach as a fellow at Sarah Lawrence, Dartmouth and Stanford, and after investigating the British health care system wrote *Patient Power* in 1992. Published by the CATO institute, the book laid out how to reform America's healthcare and sold over 300,000 copies; a bestseller for a policy book. A few years later, he took his ideas to the political table: along with Bill Kristol and then Texas Senator Phil Gramm, Goodman led the fight against Hillarycare. Together, they took on Clinton's proposal to force all employers to provide health insurance controlled by a gatekeeper- the HMOs. They succeeded.

Goodman then became what the Wall Street Journal calls “the father of HSAs.” Working from his think tank Goodman developed Health Savings Accounts in the early 2000s. Today, almost 9 million Americans benefit from HSA's: they're accounts in which taxpayers can accumulate money free of federal taxes to pay for expenses not covered by their insurance. Until Goodman developed HSAs, deposits to these kind of savings accounts by employers or employees were taxed just like wage income.

But getting HSA's implemented wasn't easy: at first, Congress found them so controversial that

Senator Ted Kennedy fought to repeal them. But now, 70% of users want HSAs to expand. In a Wall Street Journal op-ed this March, Indiana Governor Mitch Daniels showed the game-changing potential of HSAs when he wrote how the accounts kept patients satisfied and helped both the people enrolled and the state save money. Among Indiana State workers, 70% chose to enroll in HSA's introduced by Daniels and only 3% switched back. By the end of 2010, those enrolled will have saved more than \$8 million compared to their peers belonging to regular PPOs, and the state's costs will go down 11% due to HSAs alone.

But it's not because patients are forgoing necessary treatment or preventative care: a review by independent healthcare experts at Mercer Consulting found no evidence of this—rather, patients were now making smarter choices like choosing generic drugs over brand-named ones and eliminating unnecessary expenditures. Thanks to Goodman's idea, people were making better healthcare choices because they felt they were spending their own money.

BREAKING IT DOWN

The reasons for Goodman's belief that the fallout over Obamacare is just beginning lie in his breakdown of his recent "health alert." According to Goodman, the most potent arguments against the bill for the public is the dramatic impact on peoples' wallets. "The bill that's passed will require all non-elderly people to buy insurance plans with costs that will grow at twice the rate of their income" he explains. And above all, there's the impact on jobs. One of the strangest effects of the bill is the irresistible pressure it creates for employers to avoid providing health insurance, despite the penalties it puts in place. Goodman explains that for \$30,000 a year employees who receive employer health insurance, the federal government ends up providing a subsidy of around \$2,300. But employees who are not receiving health insurance from their employers and are required to obtain it on the new health insurance exchange created by the bill, the government ends up providing a federal subsidy of up to \$19,400 – what Goodman calls "an

enormous federal government gift to the employer and the employee". For employers who do not provide insurance, the penalty is lower than this "gift", so they have an incentive to avoid giving insurance. And since the state is footing the bill for the insurance, these employers can raise their employees' wages by the amount they would have spent on insurance (minus whatever penalties they pay). What then happens to employer health insurance? It disappears for \$30,000 a year employees, who all have an incentive to migrate to the exchange. Who pays this soaring bill? The taxpayer.

But there's more: take an employer of many uninsured \$30,000 a year employees. He now has to either offer all his employees insurance, or else have them all go to the exchange and pay the fine for not providing insurance: in both cases, his labor costs either rise dramatically – which means he has to fire workers to cover these costs, or else, he must absorb these costs by cutting wages. They can also just outsource the jobs. However you look at it, the bill will end up causing serious unemployment and huge shifts in the labor market.

To be clear: Goodman does not support the previous status quo either. The system before the bill discriminated against individuals by giving major tax breaks to businesses providing health insurance, without providing equivalent tax breaks to people saving their own funds. This model is designed for a different age — a time when most employees spent their working lifetimes with one company. But Goodman points out that today, one-third of workers are outside the workplace and would do better if they could manage their own healthcare expenditures in a competitive market. Instead, not only are they taxed, but they're unable to take or buy their insurance across state lines. Yet the current bill is worse: "The cost will go up compared to what it was and the quality will decrease compared to what it was" he says, "even though we insure an additional 23 million, access to care may not improve at all. There's not a single dollar in this bill that's allocated to new doctors or to build hospitals. There's nothing to increase the supply of care to meet the needs of the 23 million newly insured". It

will be just like Massachusetts, he says: “they cut in half the number of uninsured... but they had a huge problem finding doctors. In Boston you have to wait twice as long, and just as many people go to the ERs as before”. More insurance doesn’t mean more care, unless there are also more doctors and hospitals.

WHAT’S NEXT?

So what can regular citizens do? First, Goodman says citizens should act through the ballot box: “if you have someone representing you and they totally ignore what you think” he says, talking about how Pelosi forced Democrats to vote for the bill, “I hope they punish the people who voted for this”.

But then, there will be real reforms needed to create a good healthcare reform bill: in an op-ed with Newt Gingrich in the Wall Street Journal last month, Goodman explained just a few of the ten key reforms that would make what he considers a very good bill. They include making sure people can buy insurance across state lines, allowing providers to create special insurance packages to meet the needs of the chronically ill, and provisions to help individuals save for when their health status changes and they need to switch plans. “If Republicans want to govern, they can’t be a party of ‘No’” he says, “they’ll have to change the bill in fundamental ways.” Lee Habeeb agrees: “they won” he says of the House vote – “it’s time to stop protesting about the process, take back Congress and reunite on the legislation.” Healthcare’s John Galt isn’t about to retreat.