

# The Bulletin

## US Marches Toward A Financial Disaster Worse Than Anyone Thinks

### *The Advocate*

By Herb Denenberg, The Bulletin

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This column will show you that:

- Barack Obama's financial disaster will be much worse than you probably think. That's because there is another even bigger financial disaster lurking ahead and that will start to come into play in a few short years.
- There are alternatives to the Obama-style socialist health-care reforms. The Obama reform that will compound our financial crisis and create a health-care crisis
- You can find better thinking and analysis on our major public policy questions in a free publication than you can in many of the expensive periodicals and newspapers you may be subscribing to.

### The Metrics Of Our Financial Disaster

Before I get into the metrics of disaster, let me credit the source of what follows — an article by Dr. John C Goodman, a fellow at the National Center for Policy Analysis, titled "A Prescription for American Health Care," that appeared in the March 2009 issue of *Imprimis*, a free publication of Hillsdale College with more than 1,700,000 monthly readers. (For a free subscription, e-mail [imprimus@hillsdale](mailto:imprimus@hillsdale)

[college.edu](http://college.edu) or call 800-437-2268.) I find more wisdom in one issue of this publication than in 10 years of most of *The New York Times* and *The Philadelphia Inquirer* rolled into one.

Mr. Goodman bowls you over with this opening statement: "When you get through the economic time we're in right now, we're going to be confronted with an even bigger problem."

There are 78 million baby boomers now starting to sign up for early retirement under Social Security and, in two years, they will start signing up for Medicare. The problem is that the federal government has put no money aside to pay these obligations and appears to be the inspiration for Bernie Madoff's Ponzi scheme. The government will make Mr. Madoff look like a two-bit chiseler by comparison.

The Trustees of Social Security estimate a current unfunded liability of \$100 trillion in 2009. To handle the payments will require either a crushing tax increase or a crushing cutback in benefits.

If that doesn't knock you over — even in the age of Obama, \$100 trillion is still a lot of money — it gets worse. The unfunded liability of Medicare is six times larger in terms of unfunded obligations than that of Social Security. So if you're keeping score, that's already \$700 trillion in unfunded liability. That's more than 45 times the size of our entire economy.

If you think this is the sky-is-falling blues for a

far out time, think again. In 2012, Social Security and Medicare will need one of every 10 general income tax dollars to cover their combined deficits. By 2020, that goes to one of every four general income tax dollars. And by 2030, the midpoint of the baby boomer avalanche, it will take one of every two income tax dollars.

Don't relax yet. That analysis doesn't even include Medicaid, which is almost as large a problem as Medicare. Even the Congressional Budget Office, controlled by the Democrats in Congress, says that by mid-century, Medicare and Medicaid are going to crowd out everything else the government does. In other words, the government will only be able to pay for Medicare and Medicaid, and nothing else such as defense, energy, education, etc.

If the federal government wants to continue to do what it is doing now, that would mean, according to the Congressional Budget Office, that a middle-income family would have to pay two-thirds of its income in taxes.

If you think it can't get worse, it does. Private sector employer-funded pension plans are not fully funded, but are backed by a federal insurance scheme, which is also not fully funded. This generates a potential taxpayer liability of between \$500 billion and \$1 trillion.

On top of that, almost none of post-retirement health-care promises of private employers are funded. And state and local post-retirement health funds are also not funded. If you want to know what that means, some California localities have already declared bankruptcy because of employee retirement plans, and the first of the baby boomers is only 63 years old.

#### A Health-Care Solution

So we have to start fixing things or, as Mr. Goodman says, "Cleaning up the mess." Mr.

Goodman comes up with some new approaches, demonstrating that we don't have to go down the Obama socialism approach, which will only compound our financial problems.

Mr. Goodman's solutions consist of liberating patients and doctors and pre-funding the system as we move forward.

By liberating the patients, he means giving them more control of their money. He would start by designating one-third of their Medicare dollars to be under their own control. The patient would be able to pay for medical expenses with that money and would control that money. Mr. Goodman documents how patients in control of their own health savings accounts are far more prudent and economical in their consumption than government-controlled dollars.

He would liberate doctors by permitting them to re-price and re-package their services just as every other profession does. Now Medicare says this is what we pay for, this is what we don't pay for, and this is the amount we will pay. That may make no sense in terms of what a doctor should be doing.

For example, why are there so few telephone, e-mail and Skype (sound and video) consultations? Why haven't we utilized something faster and often more efficient than an office visit? Why haven't we capitalized on the wonders of a new information technology? Because Medicare decided what is to be paid for, and it doesn't pay for those alternatives to an office visit. And insurance companies follow Medicare's lead. The e-mail is a spectacular way of communicating with doctors, yet only about 2 percent of doctors and patients e-mail each other.

Why have we lagged in the use of the marvels of electronic records? Again, it is because of what Medicare doesn't pay for. So Dr. Goodman

concludes,

“If we want to move medicine into the 21st century, we have to give doctors and hospitals the freedom to re-price and re-package their services in ways that neither increase the cost to government nor decrease the quality of service to the patient.”

He also recommends measures to improve quality. Now, 17 percent of Medicare patients who have surgery re-enter the hospital because of a problem connected with the initial surgery. So the hospital makes money on its mistakes. So he recommends a warranty on surgery, forcing hospitals to compete on quality.

And to make this all work, we have to start pre-funding the system. So Mr. Goodman recommends everyone should start putting money into a health care retirement account — perhaps 2 percent from employees and 2 percent from employers. These funds would be invested and be used to fund retirement health care, thus taking the burden off of taxpayers. He summarizes this approach:

“[I]f health care consumers are allowed to save and spend their own money, and if doctors are allowed to act like entrepreneurs — in other words if we allow the market to work — there is every reason to believe that health care costs can be prevented from rising faster than our incomes.”

And perhaps one of the most revealing aspects of Mr. Goodman’s article is his documentation of how the market works when given a chance. I won’t relate all of his impressive examples, but here is one of them.

Plastic surgery is one segment of the medical system largely not covered by insurance. That means the market operates. Doctors act as entrepreneurs rather than robots and puppets

controlled by Medicare and insurance companies. So what happens to the cosmetic surgery market?

Over the last 15 years, the price of plastic surgery has been going down, while almost every other kind of surgery has been going up. What’s more surprising is that the cosmetic surgery price trend has continued even though the number of people getting plastic surgery has increased by five- or six-fold.

Here’s Dr. Goodman’s final punch line:

“Continuing our current path — allowing health care costs to rise at twice the rate of income under the aegis of an unworkable government Ponzi scheme — is by comparison unreasonable.”

Perhaps the most important accomplishment of this excellent work by Dr. Goodman is to suggest what we need on health care is some thinking. It doesn’t even have to be out of the box, but it has to be thinking about all of our health care options. And we have to stop worshipping on the altar of national health insurance (however named), which has been demonstrated to be a failing system wherever tried.

The Obama administration has to stop saluting its radical, leftist, socialist base and start going back to basics and rethinking problems and coming up with appropriate solutions.

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