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August 4, 2009
FOR IMMEDIATE RELEASE

**LAFFER: CURRENT HEALTH CARE PROPOSALS INCREASE COSTS, MEDICAL PRICE INFLATION,
AND LEAVE 30 MILLION UNINSURED**
*Renowned economist emphasizes need for patient-centered reforms that provide incentives to
consumers and medical providers*

NEW YORK CITY—The health care reform plans pending in the U.S. Congress would cause more harm than good, according to a study released today by internationally renowned economist Dr. Arthur Laffer.

“Health care reform along the lines proposed by President Obama and currently pending in Congress would render U.S. citizens poorer and their federal and state governments sorely pressed for revenues,” Laffer said. “But just as important, these reforms are not a cost-effective way to expand health insurance coverage, one of the primary goals of reform.”

According to Dr. Laffer, legislation that provided an additional \$1 trillion in federal health care spending would increase health care costs and medical price inflation, slow our national economy, and still leave 30 million Americans uninsured.

In his paper for the Texas Public Policy Foundation, “The Prognosis for National Health Insurance” (www.LafferHealthCareReport.org), Dr. Laffer urges Congress to work toward a solution that will not penalize the 70 percent of Americans who currently are happy with their health care arrangements, and that will not increase the federal deficit while only reducing the number of uninsured Americans by roughly one-third. Instead, Laffer emphasizes the need for patient-centered reform.

The study indicates that reforms need to focus on reducing costs by closing what Dr. Laffer has coined the “health care wedge” – a separation of effort and reward by which a patient understands the true costs of their health care and is therefore driven to be more efficient in his or her spending. This separation is actually the reason health care costs are skyrocketing, according to Dr. Laffer.

“When the government spends money on health care, the patient does not,” says Dr. Laffer. “The patient is then separated from the transaction in the sense that costs are no longer his concern. Health care reform should be based on policies that diminish this wedge rather than increase it.”

Health care costs have risen over the past 50 years, while the patient’s out-of-pocket contribution has plummeted: half of all medical expenditures in 1950 were paid by patients in the form of out-of-pocket expenses; today only 10 percent of expenditures are paid the same way.

Dr. Laffer’s research concluded that the current proposals being discussed in Washington would:

- raise total federal government expenditures by 5.6 percent more than otherwise, adding \$285.6 billion to the federal deficit in 2019;
- increase national health care expenditures by an additional 8.9 percent;
- raise medical price inflation 5.2 percent above what it would have been otherwise;
- slow U.S. economic growth in 2019 by 4.9 percent less than the baseline scenario of doing nothing;

- increase the current net present value of funding health care reform based on President Obama’s priorities by \$1.3 trillion (due to higher medical inflation and expenditures), or \$ 4,354 for every man, woman, and child in the U.S.; and
- still only insure about one-third of those currently without insurance – at a cost of approximately \$62,500 per new person insured.

Dr. Laffer says there are many solutions available to better the health care system without destroying what already is good in the system. The path to true health care reform is through patient-centered solutions, which emphasize the patient-doctor relationship and work to shrink the wedge by allowing patients and doctors to make more effective and economical health care choices. These solutions include:

- **Provide for individual ownership of insurance policies** – the tax deduction that allows employers to own your insurance should instead be given to the individual;
- **Better leverage Health Savings Accounts (HSAs)** – HSAs empower individuals to monitor their health care costs and create incentives for individuals to use only those services that are necessary;
- **Allow interstate purchasing of insurance** – policies in some states are more affordable because they include fewer bells and whistles; consumers should be empowered to decide which benefits they need and what prices they are willing to pay;
- **Reduce the number of mandated benefits insurers are required to cover** – empowering consumers to choose which benefits they need is only effective if insurers are able to fill these needs;
- **Reallocate the majority of Medicaid spending into simple vouchers for low-income individuals to purchase their own insurance** – an income-based sliding scale voucher program would eliminate much of the massive bureaucracy that is needed to implement today’s complex and burdensome Medicaid system and produce considerable cost savings;
- **Eliminate unnecessary scope-of-practice laws and allow non-physician health care professionals to practice to the extent of their education and training** – retail clinics have shown that increasing the provider pool safely increases competition and access to care and empowers the patient to decide from whom they receive their care; and
- **Reform tort liability laws** – defensive medicine needlessly drives up medical costs and creates an adversarial relationship between doctors and patients.

The full report may be downloaded at www.LafferHealthCareReport.org. Starting next week, information will be added that details the impact of the proposed legislation to several key states.

Dr. Arthur Laffer provides economic research and consulting to institutional asset managers, pension funds, financial institutions, policy research organizations and corporations. He is the creator of the “Laffer Curve,” an innovation that earned him the distinction as the “Father of Supply-Side Economics.” He was a member of President Reagan’s Economic Policy Advisory Board for both of his terms.

The Texas Public Policy Foundation is a non-profit, free-market research institute based in Austin. More information on the Foundation can be found at www.texaspolicy.com.

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