The DOOMED from the start: privatization of Medicare

by

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First the good news: President Bush has announced plans to expand Medicare coverage and "reform" the program's funding and administration. "Healthcare reform must begin with Medicare, because Medicare is the binding commitment of a caring society."[1] The bad news is that little of a specific nature has been said about how these goals might be achieved.

It is of considerable concern, especially to surgeons and other physicians involved in the delivery of essential care, that politicians still seem committed to the concept that Medicare's administration must somehow be closely linked to the private managed care industry if it is to survive. This concept is dubious at best.

Historical facts

As we anxiously await the final proposal that is ultimately developed for legislative acceptance, it would be of value to keep a few important historical considerations in mind, including the following:

- The legislation that created Medicare passed in 1965 with the approval of a Republican Congress. Even 40 years ago, the insurance industry could not afford to stay in the business of providing payment for the hospital care of seniors and the disabled—our most expensive populations to treat. At the time, Medicare was a near-perfect answer. Not only did it take economic heat off the private insurance industry, but also it was a terrific way to win the support of the rapidly expanding and increasingly potent senior citizen lobby. Eventually, even our historically conservative medical profession came to appreciate the expanded access Medicare offers.
- Private managed care, with the introduction of capitation and gatekeeping, promised not only to control the cost of care but also to expand access. Neither promise has been kept. While health care inflation was initially and dramatically slowed for healthy working Americans in the early 1990s, private capitation has subsequently proven an inadequate control for the long term.
- Similarly, private managed care has failed to control health care expenditures for U.S. employers, and our economy is continually hurt by the financial burden of an employment-based health insurance system. In particular, small businesses (such as medical practices) experience the economic hardship of providing health insurance for employees. These costs are then passed on to consumers/patients. We all pay in one way or another, but physicians seem to be especially hard hit by this system. We pay as employers, as providers, and again if we become patients.
- Capitation hasn't even secured the economic success of the health insurance industry. Simply put, in any humane technocratic society, inflation in the cost of health care delivery cannot be capped. Over time, the population grows, ages, and becomes more treatable and, therefore, more expensive to treat. The managed care industry's promises of cost control and corporate profit mostly depended on restricting access to care. However, as with cost, access to essential care cannot be arbitrarily capped. Promises became pipe dreams, and HMOs are now looking to back out of all but the most lucrative markets.
- For good or bad, the managed care mentality pervades American society. The capitation and gatekeeping mindset even affects our view of fee-for-service practice and historically uncapped public health systems (like traditional Medicare and the Veterans Affairs health care system). Managed care fails here as well and for the reasons already stated.
- Especially with respect to managed health care delivery, so-called free market competition does not produce greater efficiency and cost control. This is a well-documented phenomenon; and the culprit is the unnecessary (or necessary—depending on your point of view) reduplication of costly staffing, structure, and technology in the HMO system. When mutually exclusive systems of care exist in any given area, competition leads to rising costs of care.

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• As recently as 1997, Congress introduced Medicare+ Choice in an attempt to expand Medicare coverage and control costs by turning administration and payments over to private HMOs. The plan has been a miserable failure, not only for Medicare recipients but also for the HMOs. Only about 11 percent of seniors have stuck with the program, and HMOs are dropping out with the slightest provocation. Giving Medicare patients access to essential outpatient services only through an HMO forces them into care from new unfamiliar medical practices. "[Medicare patients] shouldn't be forced to give up their doctor or join an HMO to get the medicine they need."[2]

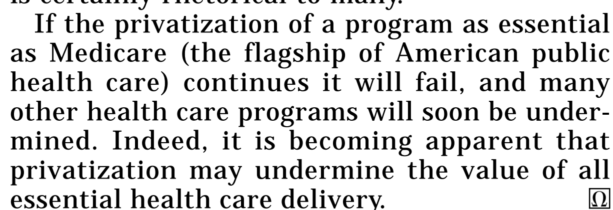
Again, it has been repeatedly proven that the cost of care must increase over time and private managed care, with capitation and gatekeeping, ultimately fails to control costs and improve access to care for American patients. Further, managed care is an economic failure for the insurance industry and American business enterprise. Further yet, managed care as we know it seems void of social purpose. The fundamental managed care reality in all of this is that it is difficult to profit on delivering health care to people with high medical expenses.

Systemwide problems

What is happening to Medicare is but a symptom of the financial illness afflicting the rest of health care delivery in the U.S. Privatizing the administration of essential care has consistently failed. Our patients know it. U.S. industry knows it. Even HMOs now know it, despite the fact that capitation allows them to cut losses and quickly bail out of paying for expensive health care. Take away the prospect of short-term profits, and the managed care industry will vanish like the old-time street hustlers.

With unusual bipartisan foresight, "Medicare was created precisely because we decided that the government should step in where private insurers, for their own very good business reasons, would not [and should not] dare tread," according to new analyst E.J. Dionne.[3] Far from 20/20, the current state of our political hindsight is in desperate need of a corrective lens.

There is little question that traditional Medicare has been the best value in providing essential inpatient care to senior citizens and people with disabilities. There is little question that these patients should have funded access to prescription medications and other essential outpatient care as part of the Medicare program. Why, then, is the U.S. political process so persistent in sacrificing our entitlements on the altar of the private marketplace? This question is certainly rhetorical to many.



If the privatization of a program as essential as Medicare (the flagship of American public health care) continues it will fail, and many other health care programs will soon be undermined. Indeed, it is becoming apparent that privatization may undermine the value of all essential health care delivery. Ω

References

1. Bush GW: Presidential State of the Union Address, January 28, 2003.
2. Locke G: Democratic response to the State of the Union Address, January 28, 2003.
3. Dionne EJ: No miracle cure for Medicare. *Washington Post*, p. A21, January 28, 2003.

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