

March 11, 2010

Dear Mr. President, Congressmen and Congresswomen,

America has higher per-capita medical spending than any other industrial democracy. Health care spending, now \$2.6 trillion, is projected to reach \$4.5 trillion by 2019. Without effective reform of the way we pay for health care, growth of health care spending will create unsustainable fiscal burdens, eat into cash compensation, perpetuate waste, and undermine the prospects for universal access to needed care.

The health care reforms passed by the House and Senate – with recent modifications proposed by President Obama – include serious measures that will slow the growth of health care spending. Putting the brakes on health care spending will take multiple measures, and we must start now. Democratic and Republican experts have proposed many different approaches to “bending the cost curve.” The President's proposal incorporates a long list of measures that will control rising costs and reinforce each other:

- *Form insurance exchanges* to curb underwriting and inefficient marketing practices that raise costs in the small-group and individual markets.
- *Reduce Medicare overpayments*, including those to Medicare Advantage plans.
- *Move Medicare to value-based payment*. Experts across the political spectrum have called for moving away from fee-for-volume payments to fee-for-value payments. The President's proposal includes virtually every idea offered to do this.
- *Tax highly generous insurance plans*. Health insurance benefits are excluded from income taxation. Many economists have proposed capping the tax exclusion to reduce over-insurance and to raise revenue. The President's proposal taxes some of the most generous policies, though it has deferred the date by which these taxes take effect.
- *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.
- *Make greater use of comparative effective research*. Less than one percent of the \$2.6 trillion America now spends on health care is devoted to rigorous research to determine whether this money is being spent efficiently or well. The President's proposal includes major research investments to support quality improvement and cost-control efforts.
- *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.
- *Reform malpractice policies*. Defensive medicine is a small but real driver of medical spending. The President's proposal encourages states to experiment with alternative mechanisms to reduce malpractice burdens while reducing medical injuries and errors. More could be done, but this represents progress on a contentious issue.
- *Implement HIT*. Health information technologies can markedly improve the quality and economy of medical care. Last year's stimulus bill provided substantial funds for HIT, and the President's proposal builds on these efforts.

- *Improve preventive care.* The President's proposal includes significant public health investments. It provides new incentives for physicians to provide preventive and chronic care. It opens Medicare to finding new ways of doing so. It includes improved tertiary prevention efforts such as improved medical management of heart failure patients to prevent costly hospital readmissions. The ability of preventive care to slow overall medical cost growth remains unproved. The ability of such measures to save lives and improve health is well-established.

Taken together, these measures are a serious, multi-faceted initiative to improve the quality and efficiency of American medical care, rein in the fastest growing portion of government and private budgets and provide a valuable platform for future cost-control efforts. If this nation is committed to cost containment and deficit reduction we must pass health care reform. If this legislation fails, the chances of reducing the growth of health care spending in the future will be greatly reduced.

### **Authors**

Henry J. Aaron, Bruce and Virginia MacLaury Senior Fellow, the Brookings Institution

David Cutler, Otto Eckstein Professor of Applied Economics, Harvard University

Alice M. Rivlin, Senior Fellow, Economic Studies Director, Greater Washington Research, the Brookings Institution

### **Signatories**

Stuart Altman, Sol C. Chaikin Professor of National Health Policy, Heller School For Social Policy and Management, Brandeis University

Kenneth J. Arrow, Nobel Laureate, Joan Kenney Professor of Economics and Professor of Operations Research Emeritus, Stanford University

Susan Athey, John Bates Clark Medal winner, Professor of Economics, Harvard University

Alan S. Blinder, Gordon S. Rentschler Memorial Professor of Economics, Princeton University

Linda J. Blumberg, Senior Fellow, the Urban Institute Health Policy Center

Thomas Buchmueller, Waldo O. Hildebrand Professor of Risk Management and Insurance, Professor of Business Economics and Public Policy, Ross School of Business, University of Michigan

Leonard Burman, Daniel Patrick Moynihan Professor of Public Affairs at the Maxwell School, Syracuse University

Gary Burtless, Senior Fellow of Economic Studies and the John C. and Nancy D. Whitehead Chair, the Brookings Institution

Anne Case, Alexander Stewart 1886 Professor of Economics and Public Affairs, Princeton University

Peter Diamond, Institute Professor and Professor of Economics, Massachusetts Institute of Technology

Randall P. Ellis, Professor and Associate Chair, Department of Economics, Boston University, President-Elect, American Society of Health Economists

Alan Garber, Henry J. Kaiser Jr. Professor, Professor of Medicine, Professor of Economics, Health Research and Policy, Professor of Economics, Stanford University

Dana P. Goldman, Norman Topping Chair in Medicine and Public Policy, University of Southern California, Director, Leonard D. Schaeffer Center for Health Policy and Economics

Jonathan Gruber, Professor of Economics, Massachusetts Institute of Technology, Director, National Bureau of Economic Research's Program on Health Care

Richard Hirth, Professor of Health Management and Policy, Director, Health Services Organization and Policy Doctoral Program, School of Public Health, University of Michigan

John Holahan, Director, the Urban Institute Health Policy Center

Jill Horwitz, Louis and Myrtle Moskowitz Research Professor of Business and Law, University of Michigan Law School

William Hsiao, K.T. Li Professor of Economics, Department of Health Policy and Management, Department of Global Health and Population, Harvard University

Theodore J. Joyce, Professor of Economics and Finance, Baruch College, City University of New York and Academic Director, Baruch/Mt Sinai MBA in Health Care Administration

Daniel Kahneman, Nobel Laureate, Senior Scholar, Eugene Higgins Professor of Psychology Emeritus, Professor of Psychology and Public Affairs Emeritus, Woodrow Wilson School of Public and International Affairs, Princeton University

Lawrence Katz, Elisabeth Allison Professor of Economics, Department of Economics, Harvard University

Adriana Lleras-Muney, Associate Professor with Tenure, Department of Economics, University of California Los Angeles

Harold S. Luft, Caldwell B. Esselstyn Professor Emeritus of Health Economics and Health Policy, School of Medicine, University of California San Francisco; Director, Palo Alto Medical Foundation Research Institute

Willard G. Manning, Professor, Harris School and the Department of Health Studies, University of Chicago

Eric S. Maskin, Nobel Laureate, A.O. Hirschman Professor of Social Science, Institute for Advanced Study, Princeton University

Len M. Nichols, Director, Center for Health Policy Research and Ethics; Professor of Health Policy, George Mason University

Harold Pollack, Helen Ross Professor, School of Social Service Administration, Faculty Chair, Center for Health Administration Studies, University of Chicago

Daniel Polsky, Professor of Medicine and Health Care Management, University of Pennsylvania; former Senior Economist at Council of Economic Advisers, 2007-08

Uwe E. Reinhardt, James Madison Professor of Political Economy, Professor of Economics and Public Affairs, Woodrow Wilson School of Public and International Affairs, Princeton University

Meredith B. Rosenthal, Associate Professor of Health Economics and Policy, Department of Health Policy and Management, Harvard School of Public Health

Stephen M. Shortell, Blue Cross of California Distinguished Professor of Health Policy and Management, Dean, School of Public Health, University of California Berkeley

Jonathan Skinner, John Sloan Dickey Third Century Professor in Economics, Professor of Community and Family Medicine, Dartmouth College

Matthew D. Shapiro, Lawrence R. Klein Collegiate Professor of Economics, Department of Economics, University of Michigan

Katherine Swartz, Professor of Health Policy and Economics, Harvard School of Public Health, President, Immediate Past President, Association for Public Policy Analysis and Management

Richard H. Thaler, Ralph and Dorothy Keller Distinguished Service Professor of Economics, Booth School of Business, University of Chicago

Kenneth Thorpe, Robert W. Woodruff Professor and Chair, Department of Health Policy and Management, Rollins School of Public Health, Emory University

Laura Tyson, S.K. and Angela Chan Professor of Global Management, Professor of Business Administration and Economics, Haas School of Business, University of California Berkeley;

former Chairman of the National Economic Council, 1995-1996; former Chairman of the Council of Economic Advisers, 1993-1995

Paul N. Van de Water, Senior Fellow, Center on Budget and Policy Priorities

Richard Zeckhauser, Frank P. Ramsey Professor of Political Economy, John F. Kennedy School of Government, Harvard University