Economic Trends Influencing Healthcare Reform

By Maude Campbell

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The US economy is in a consumer-driven recession that is likely to be long and deep and that is ushering in dramatic changes in consumer spending patterns. This will inevitably translate into healthcare changes as well, according to Robert B. Reich. The 3 major trends underlying current economic changes are demographics, globalization, and technology.

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Economic Trends
Demographics

The changing demographics of the US population influence our healthcare. “The biggest problem we face in terms of the demographic time bomb is healthcare. Healthcare expenses are going up by double digits…and there is a grave, grave necessity and a groundswell for some kind of reform,” Mr Reich points out. Unlike in 1994, when the Clinton administration attempted to gain support for universal healthcare, health-related expenditures are now rising faster with increasing copayments and deductibles, and a much larger percentage of the population is without health insurance. “This is the time, this is the hour, that people are really ready for healthcare reform,” he says.

Changing demographics and healthcare costs comprise only a portion of the set of circumstances leading to the current recession, which is making the economy the number one issue in the upcoming presidential election. The previous 3 recessions were brought about because the Federal Reserve Board raised interest rates too high in an effort to fight inflation or because investors and businesses had overinvested in equipment and then pulled back on their spending.

In contrast, this recession is led by consumers who are pulling back on spending. “The economy requires people to spend money to buy all the goods and services that the economy produces,” Mr Reich notes. “And American consumers are deep in debt, deeper in debt than we have ever seen before in the history of keeping data on debt. They had been getting money out of their homes, treating their homes as piggy banks, refinancing through home equity loans. They can’t do that anymore” because of declining home prices and rising fuel and food prices, as well as continued job loss.

The current median wage adjusted for inflation is just slightly above where it was in 1970. The average American is already working 450 hours annually more than the average European. All of the coping mechanisms to deal with low median wages have disappeared. “There really is no way in which people can keep on spending at the rate at which we are producing goods and services,” Mr Reich explains. And healthcare costs are increasing.

The impending retirement of the baby boomers poses great challenges to social security, retirement plans, and to Medicare. Demographics interlock with globalization and technology to shape the current economy and our future healthcare.

Globalization

“When most people think about globalization, they think about trade, they think about ‘our’ companies versus ‘their’ companies,” Mr Reich says. “Every big company is becoming a global company, with suppliers coming from all over the world. American companies and even American products have dissolved.” Even products with an American nameplate are global products.

“Where things are made in the supply chain, where components come from, and where particular things are done” depend more and more on worldwide wages and expertise. His own hip replacements were designed in France, manufactured in Germany, and installed with the expertise of American physicians. Expertise is crucial, and this is what Americans need to worry about.

Americans are very concerned that globalization is directing jobs to China, Southeast Asia, and other low-
wage nations, but in reality “jobs are not all going to the low-wage nations. If that is where jobs were going, Bangladesh would be the center of the world economy and it is not.” High-wage nations such as Germany continue to be major exporters even though their wages are high. This is because “they have expertise, they have knowledge, they have skills. If we want to remain a high-wage economy, we have to educate ourselves, our children, and our grandchildren to make sure they have the productivity and the skill and the innovative potential to actually justify a high standard of living in this global economy,” he emphasizes.

**Technology**

Technology is responsible for displacing more Americans than globalization, according to Mr Reich. “The reason we are losing all the manufacturing jobs, the primary reason, is not because they are going to China. The primary reason is that manufacturing is becoming so efficient. In a factory in the United States there are no people.” Although governors like to attract factories to their states, with tax abatements and subsidies, the old assembly lines are gone. “The factories are full to capacity, they are humming, but there are only 10 people in the factory and they are technicians behind computer consoles controlling the machine tools and robots. We are not going to get a lot of new jobs out of factories.”

In the early 1900s more than half of Americans worked in agriculture; today, only 5% of Americans do. Mr Reich explains that this is “not because farming was a big disaster, but because farming was a big success. It is the same with manufacturing.… Even in China, the factories that used to be inefficient—the state-run factories are getting new technologies and they need fewer people.”

Most Americans are not unemployed, but their jobs do not pay well. Jobs are in the local service economy and are sheltered from globalization, because they must be done in person. Again, the solution is education. “Globalization and technology are your friends if you are well educated, because globalization means you have a greater and greater market for your insights, for your knowledge, for your applications.… Globalization and technology are your enemies if you don’t have adequate education,” Mr Reich suggests.

“Companies are going to be even more intensely competing for talented people and there is going to be even greater pressure for immigration,” Mr Reich points out. “A debate on immigration has already occurred and it is only going to get louder.”

**Healthcare Reform**

Healthcare consumers are experiencing dramatic changes in the economy that present growing challenges to delivering quality healthcare and pharmaceuticals. “There is going to be a change, and it won’t be dramatic, it will be incremental,” Mr Reich predicts. “The question is, will it be sensible?”

Because the aging population and rising healthcare costs will put substantial change on Medicare, it is predicted that there will be a change in law affecting Medicare and other health programs. “There is going to be a change in law that enables government to use this leverage with pharmaceutical companies to reduce the price in bulk discounts of pharmaceuticals,” Mr Reich says, adding that this will reduce the research and development incentives to the pharmaceutical industry. “Behind a lot of reform in healthcare are these kinds of diabolical trade-offs in terms of how much we are, as a society, prepared to pay for new drugs, new procedures, new equipment, and life-saving advances.”

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Healthcare reform will also have to address prevention. “Prevention is a big part of it. Disease management is a big part of it. Using information technology better than we are using it to cut down on paperwork today is a big part of it,” Mr Reich notes.

“The American healthcare system is the only healthcare system in the world that I know of designed to avoid sick people.” He notes the pressure on some insurers to cover only people who are low risk and low expense “and to try and avoid people with preexisting conditions or who are more expensive. There is also a great deal spent on advertising, marketing, and on contesting claims.” The question is how to get rid of all these “reverse incentives,” he adds.

Mr Reich suggests that, “We are not going to go to single payer, but I do believe that giving people the back door to a low-cost kind of Chevrolet model healthcare system, because it is cheap, gathers enough people into it that they have some bargaining leverage to get better deals. That might be the way we tiptoe toward what might ultimately be somewhat of a single payer system.”