

9-24-1981

Health Industry Marketing Association

Max S. Baucus

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Health Industry Marketing Assn. at the Hyatt Regency

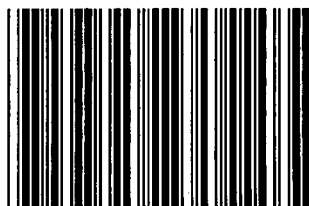
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BAUCUS

MEMO

TO: Max

FROM: Debbie

RE: HIMA Speech

DATE: September 24, 1981

Here is some information about the Health Industry Manufacturers Association. This is their sixth annual Fall meeting. The purpose of the meeting is to meet with key Reagan Administration officials and members of Congress about the first nine months of the Administration, the three years ahead, direction of health legislation, status of major economic issues, and other subjects of interest to business.

HIMA is a trade association composed of 260 corporations, representing nearly 450 divisions or companies. Each is a manufacturer of medical products, and the membership represents a broad cross-section of American business. The membership includes companies such as IBM, DuPont, General Electric, Johnson & Johnson, Abbott Laboratories, and the American Hospital Supply Corporation.

Roughly 250 senior executives of the member companies will be present. Preceding your presentation will be Jack Kemp. Senator Dole is scheduled to speak at lunch. Other scheduled speakers include Secretary Schweiker, Murray Weidenbaum, and Max Friedersdorf.

You are expected to hold the podium for roughly 30 minutes. About 15 minutes for your speech and then a short Q and A.

Points for Health proposals: -

① Spend more time analyzing pro competition health models than we did on K/R.

② Reagan economic

SPEECH BY
SENATOR MAX BAUCUS
BEFORE THE
HEALTH INDUSTRY MARKETING ASSOCIATION
HYATT REGENCY
SEPTEMBER 24, 1981

THANK YOU FOR YOUR GRACIOUS INVITATION. IT IS
INDEED A PLEASURE TO BE WITH YOU TODAY.

THIS MORNING I WOULD LIKE TO OUTLINE SOME OF MY PERCEPTIONS
OF THE REAGAN ADMINISTRATION -- FROM A LITTLE DIFFERENT
PERSPECTIVE THAN WHAT YOU HEARD FROM MY COLLEAGUE, JACK KEMP.

THE REAGAN ADMINISTRATION HAS BEEN IN TOWN FOR NEARLY 10
MONTHS. AND, THE PRESIDENT HAS HAD UNPRECEDENTED SUCCESS IN GETTING
HIS ECONOMIC PROGRAM ADOPTED BY CONGRESS.

WE VOTED TO CUT TAXES \$ 749 BILLION BY 1986, IN AN EFFORT
TO SPUR NEW INVESTMENT AND IMPROVED PRODUCTIVITY. TO PAY PART
OF THE COST OF THIS TAX CUT, WE VOTED \$ 135 BILLION IN SPENDING
CUTS.

AND, IN AUGUST, THE PRESIDENT LEFT TOWN IN A BLAZE OF SUPPLY-
SIDE GLORY. SUPPOSEDLY WE HAD REVERSED THE COURSE OF THE ECONOMY.

BUT THE EUPHORIA IS OVER.

THE STOCK MARKET HAS RESPONDED BY SLUMPING. INTEREST RATES -- ALTHOUGH DOWN A BIT IN THE PAST FEW DAYS -- STILL HOVER BETWEEN 18 AND 20 PERCENT, REPLACING INFLATION AS THE NUMBER ONE ECONOMIC PROBLEM.

INSTEAD OF THE \$42.5 BILLION BUDGET DEFICIT PREDICTED BY THE ADMINISTRATION LAST MARCH, WE NOW ARE LOOKING AT A \$65 BILLION DEFICIT IN THE YEAR BEGINNING OCTOBER 1. THAT'S PROJECTED TO CLIMB TO NEARLY \$100 BILLION BY 1984.

AS SOMEONE SAID THE OTHER DAY, ROSE-COLORED EXPECTATIONS ARE NO SUBSTITUTE FOR REALITY. AND THE REAGAN ADMINISTRATION HAS BEEN GETTING A TOUGH DOSE OF REALITY IN THE PAST FEW WEEKS.

THE FACT IS THAT THE NUMBERS JUST DON'T ADD UP. THE ARITHMETIC IS BAD. AS THE WASHINGTON POST EDITORIALIZED:

"IN THE AFTERMATH OF THE TAX CUT, THERE WILL BE ENOUGH MONEY TO PAY FOR THE PRESIDENT'S CURRENT DEFENSE PLANS. THERE WILL BE ENOUGH FOR SOCIAL SECURITY, THE OTHER PENSIONS AND SIMILAR BENEFITS TO WHICH PEOPLE ARE ENTITLED BY PRESENT LAW. THERE WILL PROBABLY BE ENOUGH FOR MEDICAL CARE FOR THE ELDERLY AND VETERANS. BUT THERE WON'T BE A DIME FOR ANYTHING BEYOND THAT SHORT LIST. TO BALANCE THE BUDGET IN 1984, UNDER THOSE CIRCUMSTANCES, WOULD MEAN LITERALLY CLOSING DOWN THE REST OF THE GOVERNMENT."

NOW THAT'S A PRETTY GLOOMY SCENARIO -- BUT MORE AND MORE PEOPLE ARE REALIZING THAT IT'S THE TRUTH.

THE ADMINISTRATION'S RESPONSE WILL BE UNVEILED TONIGHT. BUT NO MATTER WHAT IT IS, THERE IS GROWING CONCERN THAT IT WILL NOT PREVENT THE FISCAL DISASTER LURKING AHEAD.

FEW SEGMENTS OF THE ECONOMY HAVE PROVED TO BE MORE FRUSTRATING FOR MONEY MANAGERS BOTH INSIDE AND OUTSIDE THE FEDERAL GOVERNMENT THAN THE HEALTH SECTOR.

IN JUST THE PAST 10 YEARS, NATIONAL HEALTH CARE SPENDING HAS MORE THAN TRIPLED. FOR THE PAST FEW YEARS, IT HAS BEEN GROWING AT AN ANNUAL RATE OF ALMOST 15 PERCENT -- HALF AGAIN AS FAST AS THE GROSS NATIONAL PRODUCT.

SINCE HEALTH SPENDING REPRESENTS ABOUT 10 PERCENT OF THE FEDERAL BUDGET, THESE INCREASES ARE A HIGHLY VISIBLE TARGET FOR THE BUDGET CUTTERS IN WASHINGTON.

THE ADMINISTRATION HAS SAID ITS LONG-TERM APPROACH TO THE HEALTH COST PROBLEM IS TO ELIMINATE REGULATION AND TO STIMULATE COMPETITION IN THE HEALTH CARE AREA. THIS APPROACH HAS A GREAT DEAL OF APPEAL, AND SEEMS ALMOST TOO GOOD TO BE TRUE.

THEY SAY THIS MODEL SHOULD BE THE CENTERPIECE IN ANY HEALTH STRATEGY FOR THE EIGHTIES. THEY SING THE PRAISES OF THIS APPROACH AND ARGUE THAT THEIR PROPOSALS WOULD CORRECT MANY OF THE FLAWS IN THE WAY THE NATION TAKES CARE OF ITS SICK.

NO DOUBT THIS CONCEPT WILL GET A LOT OF ATTENTION IN CONGRESS -- ONCE IT IS FORMALIZED IN LEGISLATION. BUT AS WITH ANY NOTION BASED ALMOST ENTIRELY ON THEORY, IT DESERVES A HEALTHY AND CONSTRUCTIVE SKEPTICISM.

WHILE DE-REGULATING THE HEALTH INDUSTRY MIGHT SOLVE SOME OF THE HEALTH PROBLEMS FOR URBAN AMERICANS, IT WOULD BE OF LITTLE AID TO RURAL AMERICA, FOR EXAMPLE.

AND EVEN IN URBAN CENTERS, THE RESULTS ARE UNEXCITING. FOR EXAMPLE, IF COMPETITION BETWEEN HEALTH MAINTENANCE ORGANIZATIONS AND CONVENTIONAL PROVIDERS WERE TO RESULT IN REDUCED COSTS, ONE WOULD EXPECT TO SEE THESE RESULTS IN CALIFORNIA WHERE HMDs HAVE EFFECTIVELY COMPETED WITH FEE-FOR-SERVICE MEDICINE AND TRADITIONAL INSURANCE ORGANIZATIONS FOR YEARS.

YET, PER CAPITA MEDICAL CARE SPENDING BY CALIFORNIANS IS SAID TO BE AMONG THE HIGHEST IN THE NATION.

MOREOVER, IF THE PRO-COMPETITION APPROACH CAN BE MADE TO WORK IN A WAY THAT REDUCES HEALTH CARE EXPENDITURES, HOW WILL PROVIDERS REACT? IN TODAY'S MARKETPLACE, COMPETITION MEANS RICHES OR AN ADEQUATE INCOME FOR SOME, AND BANKRUPTCY FOR OTHERS.

WILL THE INEFFICIENT PHYSICIANS AND HOSPITALS THAT LOSE OUT IN THE COMPETITIVE STRUGGLE SIMPLY FILE THEIR BANKRUPTCY PAPERS AND FIND NEW LINES OF WORK? OR WILL SOME CUT THE PRICE OF THEIR PRODUCT BY PROVIDING LESS CARE THAN THEIR PATIENTS NEED?

AND WILL SOME PATIENTS WITH SPECIAL, TIME-CONSUMING NEEDS HAVE DIFFICULTY FINDING A PROVIDER TO TREAT THEM BECAUSE THEIR CARE CANNOT BE PROVIDED ECONOMICALLY? (AIRLINE DEREGULATION ANALOGY FROM MONTANA.)

AND HOW WILL THE PATIENT COMPARISON-SHOP AMONG THE COMPETING PROVIDERS? BONA FIDE COMPETITION REQUIRES THAT THE CUSTOMER KNOW WHAT HE WILL GET FOR HIS MONEY WHEN CHOOSING AMONG PRODUCTS. BUT CAN PEOPLE REALISTICALLY JUDGE THE QUALITY OF THE CARE BEING OFFERED? WILL THEY KNOW WHEN THEY PAY FOR FORD-QUALITY MEDICINE WHETHER THEY ARE GETTING A FORD OR A PAIR OF ROLLER SKATES?

WOULD PEOPLE TEND TO THROW UP THEIR HANDS AND CHOOSE THE EXPENSIVE ALTERNATIVE ON THE ASSUMPTION THAT YOU GET WHAT YOU PAY FOR?

ALTHOUGH THE ADMINISTRATION HAS NOT YET DECIDED ON THE DETAILS OF ITS COMPETITION PACKAGE, IT IS EXPECTED TO INCLUDE A PROPOSAL FOR A MEDICARE VOUCHER. THIS PROPOSAL IS INTENDED, EITHER IMMEDIATELY OR OVER TIME, TO MOVE PEOPLE OUT OF MEDICARE AND HAVE THEM PURCHASE PRIVATE HEALTH INSURANCE USING GOVERNMENT-FINANCED VOUCHERS.

MOST OF THE PEOPLE WHO ACTIVELY SUPPORT THIS APPROACH SEE IT AS A SURE WAY OF REDUCING MEDICARE COSTS. WHILE THE VALUE OF THE VOUCHER WOULD INITIALLY BE SET TO EQUAL THE AVERAGE MEDICARE BENEFIT, THE VALUE OF THE VOUCHER WOULD BE INCREASED AT A SLOWER PACE THAN MEDICAL COSTS HAVE INCREASED HISTORICALLY.

IN OTHER WORDS, THE VALUE OF THE VOUCHERS WOULD BE "CAPPED."

ON TOP OF THIS IS THE FACT THAT THE ELDERLY WOULD LOSE THE BENEFIT OF CERTAIN ECONOMIC ADVANTAGES THAT MEDICARE ENJOYS. MEDICARE IS ABLE TO PAY HOSPITALS LESS THAN THE GOING RATE BECAUSE OF ITS PURCHASING POWER. HOSPITALS DEPEND ON MEDICARE FOR ABOUT ONE-THIRD OF THEIR REVENUE.

MOREOVER, MEDICARE PAYS NO TAXES AND HAS NO MARKETING COSTS. IN THE LIGHT OF THESE MEDICARE ECONOMIES, IT SEEMS FAIR TO ASK EXACTLY HOW INSURERS CAN BE EXPECTED TO OFFER THE AGED THE SAME VALUE AS MEDICARE. PROPONENTS OF THIS APPROACH SPECULATE THAT THE INSURANCE ORGANIZATION THAT WOULD COMPETE FOR THE VOUCHER BUSINESS BY FINDING WAYS TO CONTAIN HEALTH COSTS THROUGH INNOVATIVE NEW TECHNIQUES. IS THIS ANOTHER PROMISE THAT WE WILL HAVE A HAPPY ENDING?

MY OWN FEELING IS THAT THE VOUCHER PROPONENTS ARE GOING TO HAVE A DIFFICULT TIME CONVINCING THE ELDERLY, THE INSURANCE INDUSTRY OR THE CONGRESS THAT THEIR PLAN, IN BAILING OUT MEDICARE, WON'T SIMPLY DEPRIVE THE ELDERLY OF NEEDED HEALTH BENEFITS AND LET THE PRIVATE SECTOR TAKE THE BLAME.

THE PRO-COMPETITION MODEL AND THE MEDICARE VOUCHER COULD TURN OUT TO BE THE MOST SIGNIFICANT CHANGE IN OUR HEALTH CARE SYSTEM SINCE MEDICARE WAS ENACTED.

YET SO FAR, VERY FEW UNDERSTAND THE FULL EFFECTS OF THESE TWO PROPOSALS. BEFORE WE RUSH TO ADOPT SUCH IMPORTANT CHANGES, LET'S MAKE SURE WE FULLY UNDERSTAND WHAT THEY WILL DO.

CONGRESS DIDN'T DO THAT WHEN WE PASSED THE ~~KEMP-ROTH~~ TAX BILL AND TODAY WE ARE REAPING THE CONSEQUENCES. LET'S NOT MAKE THAT MISTAKE AGAIN.

THIS THEN IS AN OVERVIEW OF THE HEALTH AGENDA -- AND THE REAGAN ECONOMIC PACKAGE. THE DAYS OF UNLIMITED FEDERAL SPENDING ARE LONG GONE.

THE CHALLENGE FOR GOVERNMENT AND POLITICS IN THE EIGHTIES IS TO APPORTION AN INCREASINGLY REDUCED SUPPLY OF FEDERAL DOLLARS IN A FAIR AND JUST WAY.

WE'VE DONE THE EASY PART. SQUEEZING ANOTHER \$16 BILLION FROM THE FEDERAL BUDGET MAY JUST NOT BE POSSIBLE.

AND IF THAT'S THE CASE, THE PRESIDENT MAY BE FORCED TO ACCEPT A ROLLBACK OF THE TAX CUT. OTHERWISE, WE MAY FIND OURSELVES IN THE MIDDLE OF A VERY DARK AND BLIND ALLEY.

Thank you