



Executive Alert



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ALL THAT'S NEW IN THE WORLD OF IDEAS

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U.S. Sen. Bill Frist, R-Tenn., outlines a new bipartisan proposal that would allow the elderly to leave Medicare and enter private sector health insurance plans during a recent NCPA briefing on Capitol Hill. See related stories below and on page E2.

Reforming Medicare

Senior citizens could have access to full prescription drug coverage at no additional cost to the government if they were allowed to combine Medicare funds with the money they currently spend on private insurance and pay premiums into a comprehensive plan instead. This is the conclusion of a new study prepared for the National Center for Policy Analysis by Milliman & Robertson, Inc., one of the nation's leading actuarial consulting firms on health benefits.

Medicare in its current form only covers nursing home care for 100 days after hospitalization, limits the number of covered hospital days and covers few outpatient prescription drugs. Because Medicare coverage is incomplete, beneficiaries are exposed to significant out-of-pocket costs.

- As many as 360,000 Medicare beneficiaries face expenses in excess of \$5,000 annually.

- To avoid these high costs, most seniors acquire private insurance, either through a former employer (33 percent) or by purchasing Medigap insurance (36 percent).

Medicare will spend about \$5,800 on each beneficiary this year. The most popular Medigap policy costs about \$1,611. If beneficiaries were allowed to combine the two sums, the amount should pay for any of a range of health insurance options.

- Using this amount and about another \$153 out of pocket, seniors could pay premiums for an HMO with comprehensive health coverage that included prescription drugs.

- Seniors who want more choices

should be able to enroll in a fee-for-service plan with a high deductible and a Medical Savings Account — in many cases for a premium considerably less than what they currently pay for Medigap; instead of the unlimited exposure most seniors now face, the out-of-pocket cost under these plans could average about \$1,200 a year.

- In many cases, moving to a private plan not only would provide coverage for prescription drugs but also would save money for the beneficiary; for example, the average senior who currently has Medigap insurance would save more than \$1,000 a year in premiums and out-of-pocket costs.

Source: Mark Litow, "Defined Contributions as an Option in Medicare," September 17, 1999, prepared by Milliman & Robertson, Inc., for the National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

Patient Dissatisfaction

According to a Harvard School of Public Health survey that measured public opinion toward health care in five English-speaking countries, people in all five countries had roughly the same discontent with their health care system.

The survey covered the United States, which has relied largely on employer-sponsored health care; Canada, with its single-payer government-run system; the United Kingdom, which has a truly socialized system; and Australia and New Zealand, which have hybrids of all the above.

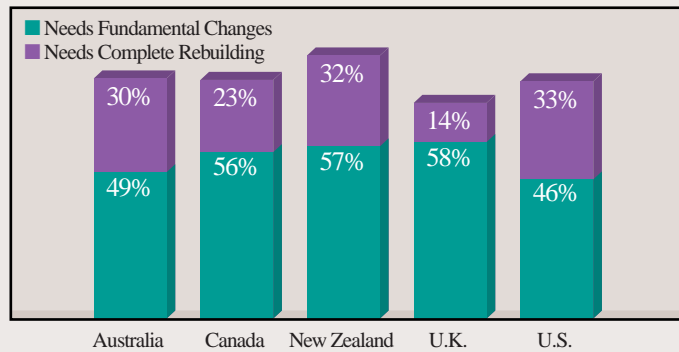
- In each of three countries — the United States, Canada and Australia — 79 percent of the population said their system needs either “fundamental change” or to be “completely rebuilt.”

- The same sentiment was expressed by 89 percent of New Zealanders and by 72 percent in the United Kingdom.

Despite superficial differences in the financing systems, in all five nations somebody other than the patient is paying the bill — an employer, an insurance company, the government or a combination. In all five, there is a disconnect between the consumer of services and the payer of the bill. The consumer-patient has been told that he or she has a right or an entitlement to the best care possible, whenever and wherever he or she may want it. But the truth is that there is a limited amount of money to spend on health care. All five countries try to stretch their funds by controlling the supply of services. They try to prevent patients from receiving the services they desire by limiting the number of providers, rationing the quantity of services allowed, creating waiting lists of patients or denying care outright.

Considering the dissatisfaction of citizens, perhaps it is time for our health care systems to be honest and tell people, “Our system has limited resources for health care. We will try to allocate those funds fairly, but if you want more, you will have to pay for it yourselves.” People would then be free to make their own judgments about what is and is not important to them

PUBLIC'S VIEW OF THEIR NATION'S HEALTH CARE SYSTEM



Source: Commonwealth Fund 1998 International Health Policy Survey.

and how to allocate their funds. Instead of withholding the supply of available services, the countries can work on the demand side of the equation.

For example, the United States could take a number of actions to develop the demand side of cost controls. Creating Medical Savings Accounts was one such action. Others would include allowing individual choice and ownership of health plans, encouraging defined contributions or vouchers from employers and government payers, replacing the current tax exclusion with a refundable tax credit and reforming the insurance market to allow

for nonemployment groups and free choice of benefits.

These measures would allow health care consumers to seize control of their own health care resources and decide for themselves how to allocate those resources. Such autonomy appears to be what the approximately 80 percent who favor “fundamental change” and “complete rebuilding” are seeking.

Source: Greg Scandlen, “Patient Dissatisfaction,” Brief Analysis No. 311, January 31, 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

Too Much Insurance

The Federal Employees Health Benefits Program (FEHBP) insures more than nine million federal employees through approximately 250 different plans. The government pays a set percentage of the annual premium costs (up to a certain dollar amount) for participants. The success of the FEHBP at controlling health care costs — as well as its dependence on market forces rather than regulatory mandates — has made it a popular model for Medicare reformers. Premiums within the FEHBP grew at an average of 3 percent annually from 1992 to 1999, compared to 5 percent in the private sector.

However, despite the slower rise in premiums, total expenditures within the program itself are higher than necessary. Researchers have found that even though there is little difference in benefits, actuar-

ial value and consumer satisfaction between the high-cost plans that cost the government more and the less costly standard option plans, employees are more likely to choose the plans that maximize the federal contribution, whether they need what the more costly plan provides or not.

To control costs, beginning in 1999 the federal contribution for FEHBP became the lesser of 75 percent of a plan’s premium or 72 percent of the average of all premiums, weighted by enrollment. Whether or not this has altered consumers’ decision-making processes is not yet known.

Source: “Structure of Employer Contributions in the Federal Employees Health Benefits Plan May Prompt Employees to Buy More Coverage Than They Need,” *Health Care Financing & Organization: News & Progress*, November 1999, Alpha Center, 1350 Connecticut Avenue, N.W., Suite 1100, Washington, D.C. 20036, (202) 296-1818.

Unhealthy Heart Care In Britain

Britain's claim that its National Health Service spends less as a proportion of gross domestic product than many other countries, yet provides just as good health results, is not borne out by the facts.

For instance, the government has an admittedly unsatisfactory record of treating coronary heart disease, the most common cause of premature (under age 75) death in the United Kingdom. There were nearly 60,000 such premature deaths in 1996.

- Comparing death rates from circulatory disease for persons under age 65 throughout the European Union, the U.K. ranked 13th out of 15.

- Deaths from coronary heart disease fell by only 30 percent in the U.K. in 1993, compared with 43 percent in Australia, 41 percent in Sweden and 34 percent in the United States.

Furthermore, treatments for people with unhealthy hearts are often inadequate.

- The 1991 "Health of the Nation" re-

port conceded that the target of 300 coronary artery bypass grafts per million population was "significantly below most targets adopted by other countries" and noted that even this target had not been achieved.

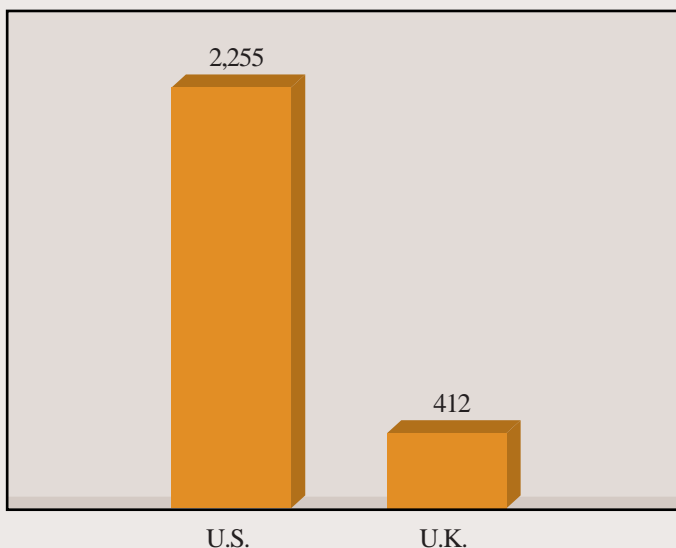
- In the U.S., 598,000 bypasses were performed in 1996 at a rate of 2,255 per million population, compared with a rate of 412 per million in the U.K.

- The 1996 Health Survey for England found that more than four out of 10 men and one in three women with hypertension were not receiving treatment, and of those receiving treatment a third remained hypertensive.

- In 1997, 42 percent with hypertension were being treated successfully, 21 percent were being treated inadequately and 37 percent were not being treated at all.

Source: David G. Green "The Impact of NHS Rationing on Heart Disease," *Economic Affairs*, December 1999, Institute of Economic Affairs, 2 Lord North Street, London, England SW1P 3LB, (0171) 799-3745.

RATE OF CORONARY ARTERY BYPASSES (per million population)



Source: Institute of Economic Affairs.

Canadian Collapse

Canada's government-run health care system is in crisis: overburdened, forced to ration care and unable to shake off a straitjacket of centralized, bureaucratic planning.

- On January 2, 23 of the 25 hospital emergency rooms in Toronto were closed to all patients, regardless of the severity of their illness.

- The Canadian Medical Journal reported that in Ontario during one 12-month period, 121 patients were permanently removed from the waiting list for coronary bypass surgery because they had become so sick they could no longer undergo surgery with a reasonable risk of survival.

- The Organization for Economic Cooperation and Development (OECD) ranks Canada in the bottom third of its 29 member countries for availability of medical technology such as MRI and CT scanners, yet Canada ranked fifth in national health expenditures in 1997.

Despite the general belief, not everyone is covered under the government-run health care system.

- Studies show that in 1997-98 about 170,000 people in British Columbia — 4.2 percent of the population — were not covered because they had not paid premiums the province requires.

- Alberta also requires a premium and does not cover individuals who do not pay.

- At a large teaching hospital in Vancouver, 10 percent of emergency room patients have no coverage.

A nationwide poll in 1999 found that 76 percent of Canadians now believe the health care system is in crisis.

Source: Bill McArthur and Owen Lippert, "Canadian Health Care — A System in Collapse," *Backgrounder*, January 2000, Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, B.C. V6J 3G7, Canada, (604) 688-0221.

Is Social Security a Good Deal?

How much difference does it make to a worker whether his or her Social Security payroll taxes go to the Social Security Administration or into an individual account invested in stocks and bonds? A new online calculator developed by the Private Enterprise Research Center at Texas A&M University for the National Center for Policy Analysis answers that question in concrete terms. Now a machinist, a bus driver, a waitress, an accountant and people in hundreds of other occupations can enter a small amount of information and get reliable estimates.

The calculator, available at <http://www.lexicom.ab.ca/ncpa/calc2>, draws on a massive database that includes extensive historical population data, occupation-specific earnings profiles compiled by the Census Bureau, historical rates of return on equity markets, historical and projected economic conditions, and Social Security regulations governing retirement. The calculator estimates:


- What a worker can expect in monthly benefits under the existing Social Security system and what the worker's monthly income would have been if the Social Security tax had been privately invested in stocks and bonds.
- The value of taxes the worker will pay over a lifetime of work and the value of expected Social Security benefits.
- The payroll tax needed at the time of the worker's retirement to pay Social Security and government-provided health care benefits.

Social Security is a pay-as-you-go system. Today's payroll taxes are used to pay benefits to current retirees and their families. In the early years of Social Security, retirees generally received far more in benefits than they had paid into the system.

But things have changed since 1940, when there were 42 people working for each person receiving Social Security payments. By the middle of the 21st century, we can expect that there will be only 1.5 to 2 workers for each person drawing Social Security benefits.

Today, an employee and employer

CALCULATOR ENTRY SCREEN: 35-YEAR-OLD GROUNDSKEEPER (Earnings \$21,000 in 1999)



Why Is This Calculator Important To You?

How The NCPA Social Security Calculator Works

Social Security Issues And Links

Age

1999 Earnings

Sex

Retirement Age

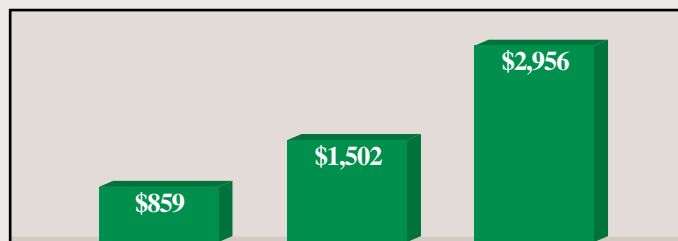
Adjust For Inflation?

Occupation

Note: All Buttons Are Links

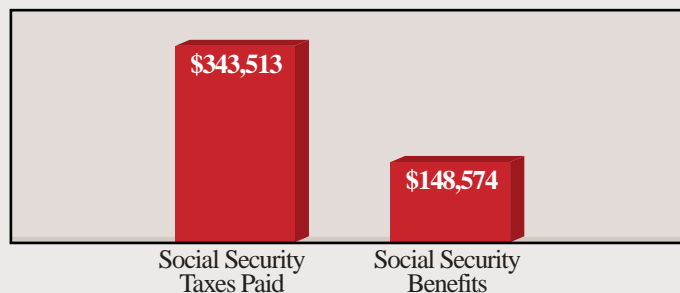
Calculate

MONTHLY INCOME AT RETIREMENT (Year 2000 Dollars)



* Maximum benefit a retiree, nonworking spouse and dependent child can receive

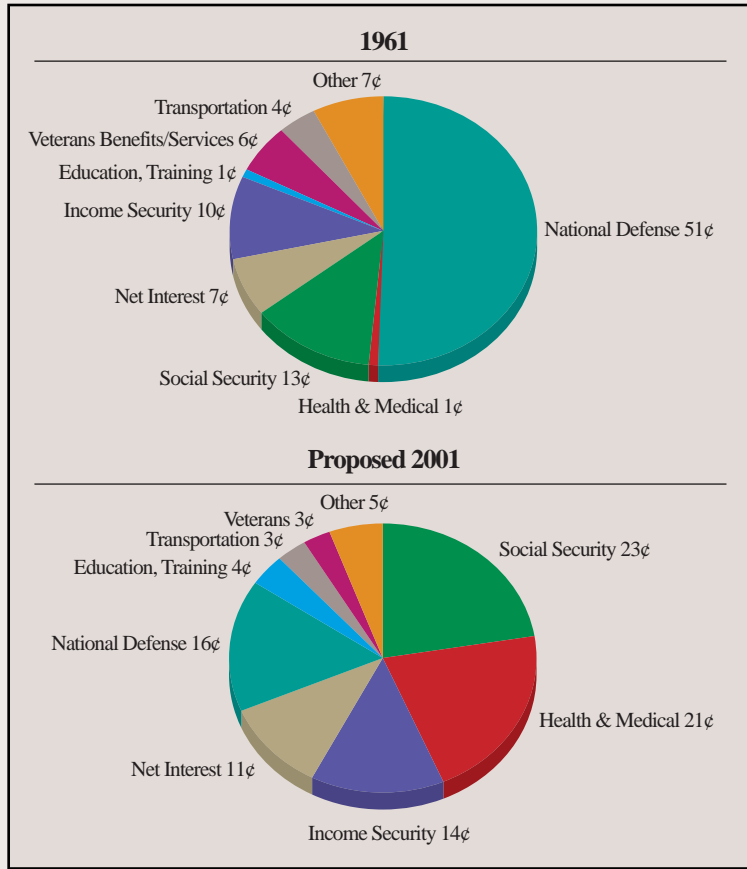
EXPECTED LIFETIME TAXES AND BENEFITS (Real Dollars at the time of retirement)



each pay a 5.3 percent tax on each dollar the employee earns up to a maximum of \$76,200. This 10.6 percent of earnings goes to the government's Old Age and Survivors Insurance program (known as OASI). (Additional payroll taxes go to

Disability Insurance and Medicare.) The OASI portion is used to finance monthly Social Security benefits, which the Social Security Administration calculates, using a complicated formula.

HOW THE FEDERAL GOVERNMENT SPENDS YOUR TAX DOLLAR



Source: Tax Foundation, OMB.

Where Our Tax Dollars Go

According to the federal government's plans for fiscal year 2001, the typical tax dollar will be divided up far differently than in past decades. The biggest changes are in how much Uncle Sam spends on health-related programs and on national defense.

- In 1961 the federal government spent only 1 cent of every tax dollar on health, and even after Medicare and Medicaid were enacted, that cost was 6 cents in 1971, 10 cents in 1981 and 13 cents in 1991.
- In 2001 the projected spending on health will be 21 cents of every tax dollar.
- On the other hand, the portion of federal spending devoted to national defense has fallen from 51 cents of every tax dollar in 1961 to 21 cents in 1991 and 16 cents in 2001.

Social Security outlays have climbed slightly over the past two decades, from a little less than 21 cents out of every tax dollar in 1981 to 23 cents today.

The 2001 budget shows the relatively minor role that discretionary spending — such as defense, education, agriculture and transportation — has assumed over the past few decades.

- In 1961, discretionary spending represented about 70 cents of every federal tax dollar spent.
- Mandatory spending, including entitlements and net interest, now represents about 70 cents of every federal tax dollar spent.

Source: "How Does Uncle Sam (Tentatively) Plan to Spend Your Federal Tax Dollar in FY 2001?" February 11, 2000, Tax Foundation, 1250 H Street, N.W., Suite 750, Washington, D.C. 20005, (202) 783-2760.

Unfathomable Tax Code

The tax code gets more complicated and less fair with each passing year. Republicans, Democrats and hundreds of interest groups constantly manipulate the Internal Revenue Code. The result is an irrational tax system that defies understanding.

- The Tax Code began in 1913 as a single two-page form backed up by 14 pages of law.
- Today it has 17,000 pages, requires 703 different forms and is more than seven times longer than the Bible.

Rep. Steve Largent (R-Okla.) and Sen. Tim Hutchinson (R-Ark.) have introduced a bill that would obligate lawmakers to undertake a fundamental review of the tax code. It

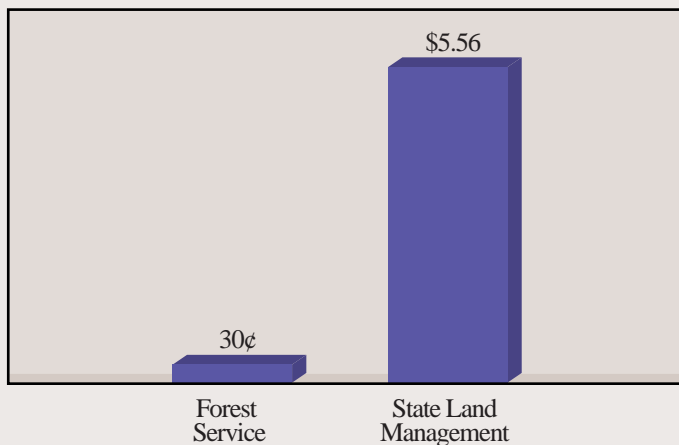
would require lawmakers to implement a new tax code by July 4, 2002, and would sunset the current tax code on December 31, 2002.

Some critics argue that sunset-ting would create uncertainty, particularly for the business community. But the current code creates uncertainty. For example:

- Since 1986 there have been more than 6,000 changes to the tax code.
- The 1997 tax bill alone added 285 new sections to the tax code and amended 824 others.

Source: Daniel J. Mitchell, "Time to Sunset the Tax Code," Heritage Foundation Executive Memorandum, January 28, 2000, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400.

**INCOME FROM TIMBER SALES PER DOLLAR OF
TIMBER SALES EXPENSE
(1994-96)**



Source: Cato Institute.

Returning Carbon to the Soil

The level of carbon dioxide in the atmosphere has increased due to human activity, and there are fears that this increase may cause global warming. However, much of the six billion tons of carbon released into the atmosphere each year by human activity could be returned to the soil, along with much of what has been previously lost. Since plants feed on carbon dioxide in the air, the primary way to return carbon to the soil is to grow plants. Improved agriculture is the key.

- World soils contain about 3.2 trillion tons of carbon within the top six feet.
- About 100 billion tons of carbon originally in soil has been lost through agricultural practices that disturb soil — leading to wind and water erosion — or reduce plant cover.
- It is estimated that improved agricultural practices could help the soil retain the carbon it now emits and could, over the next 25 to 50 years, return an estimated 70 to 80 percent of the previously lost carbon to the soil — and keep it there.

In developed nations, agricultural productivity has steadily increased, land degradation has slowed or reversed, and soil carbon pools have stabilized or increased. Still, it is possible for the developed nations to increase the amount of carbon returned to their soil. But the poorer the soil, the greater its potential for increased storage, so better agricultural practices such as soil erosion management and land conversion and restoration of poor agricultural lands in Third World countries would not only have the most effect in returning carbon to the soil but would also improve the fertility.

According to a Department of Energy Report, 5.65 billion to 10.1 billion tons of carbon per year could be returned to the world's soils over the next 25 to 50 years.

Source: David E. Wojcik, "Carbon Storage in Soil: The Ultimate No-Regrets Policy?" November 1, 1999, *Greening Earth Society*, 4301 Wilson Boulevard, Suite 805 Arlington, Va. 22203, (703) 907-6168.

Privatizing Federal Lands

The federal government owns 630 million acres — nearly one-third of all U.S. land area. More than half of the land area of Idaho, Nevada, Oregon and Utah belongs to the federal government. But the government is mismanaging our public lands both environmentally and economically.

- Sixty percent of the federal land on which ranchers pay a fee to the Bureau of Land Management for grazing rights has been overgrazed, and the agency has done nothing to correct the problem.
- At least 39 million acres of federal forests are at extreme risk of catastrophic forest fires.
- Ecologists report that the ecosystems of Yellowstone, Rocky Mountain and other national parks have been heavily damaged by years of National Park System neglect and mismanagement.
- The Forest Service spent so much on managing its timber sales between 1994 and 1996 that it only took in 30 cents of timber revenue for every dollar in timber sales expenses.
- By contrast, land management in 10 Western states with their own timber sales netted \$5.56 for every dollar in expenses.

It is possible to devise a divestiture plan that would allow the public lands to be auctioned off in blocks by the federal government every six months to a year over a period of 20 to 40 years. The government could give public land share certificates (analogous to no-par-value stock certificates) equally to all Americans. Certificate holders could sell, buy, trade or combine them to purchase the blocks of land at auction. Such a plan could include special provisions to maintain the integrity of national parks, monuments, wilderness areas and particularly scenic forestlands, which make up at most 10 to 20 percent of the public lands.

The belief that only the government can be trusted to preserve and beautify such lands is belied by the fact that, to benefit their local constituencies, politicians often impose environmental and economic inefficiencies on the management of public lands. Environmental organizations such as the Nature Conservancy and the National Audubon Society have acquired private land in competition with other users in the past, and such groups will likely be able to bid successfully for many of these public lands.

Source: Terry L. Anderson, Vernon L. Smith and Emily Simmons, "How and Why to Privatize Federal Lands," *Policy Analysis No. 363*, December 9, 1999, Cato Institute, 1000 Massachusetts Avenue, N.E., Washington, D.C. 20001, (202) 842-0200.

Superfund Goes Slowly

Nearly 20 years after the Superfund program was established to clean up hazardous waste sites, and after more than \$14 billion has been spent, cleanup has not been completed at about 42 percent of the approximately 1,400 sites on the National Priorities List of the Environmental Protection Agency (EPA).

- As of April 1999, 838 sites — 640 of them nonfederal — still required cleanup actions.

- Of the nonfederal sites on the National Priorities List, 376 were in the remedial investigation and feasibility study phase, 133 were in the remedial design phase and 131 were in the remedial action phase.

- Historically, remedial actions at Superfund sites have taken 10 or more years to complete and often cost millions of dollars — and half the sites also require long-term cleanups of groundwater or surface water, which can take over 30 years.

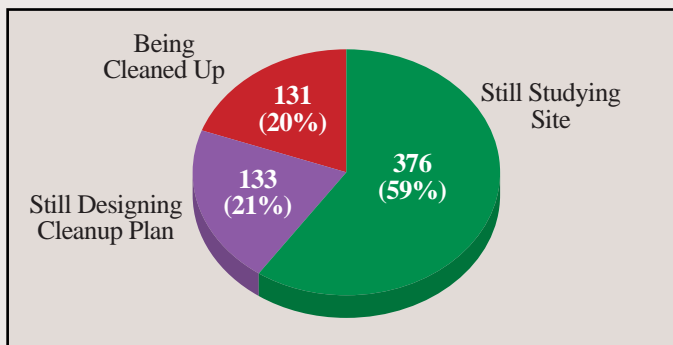
Special industry taxes paid into the Superfund trust fund totaled about \$13.5 billion from 1981 through 1998, and — adding interest and penalties paid into the fund — expenditures totaled \$14.7 billion from fiscal year 1987 through fiscal year 1998.

In addition, from 1980 through 1998, responsible parties — usually landowners and companies — spent an estimated \$15.5 billion for cleanup activities at sites on the National Priorities list.

Estimates are that it will cost between \$8.2 billion and \$11.7 billion more to clean up the 640 nonfederal sites. For the EPA to finish cleaning up 85 percent of the 640 sites by the end of fiscal year 2008, its costs will average \$875 million annually.

Source: "Superfund: Information on the Program's Funding and Status," GAO/RCED-00-25, October 1999, General Accounting Office, Washington, D.C.

STATUS OF SUPERFUND SITES (Nonfederal)



Source: U.S. General Accounting Office.

Canada's Endangered Species

During its 25 years of existence in the United States, the Endangered Species Act has completely failed to protect species and is best known for creating a "shoot, shovel and shut up" incentive for private landowners to make their property unattractive for endangered species and thus avoid regulatory takings. Now environmentalists are pressing Canada to enact similar legislation.

Since the Committee on the Status of Endangered Wildlife in Canada began constructing a list of species at risk in 1978, the list has grown from 17 to 339 species in five categories: extinct, extirpated (killed out), endangered, threatened and vulnerable. However, a close look at the list reveals:

- The 339 species listed make up only about 0.5 percent of the total recorded species in Canada.

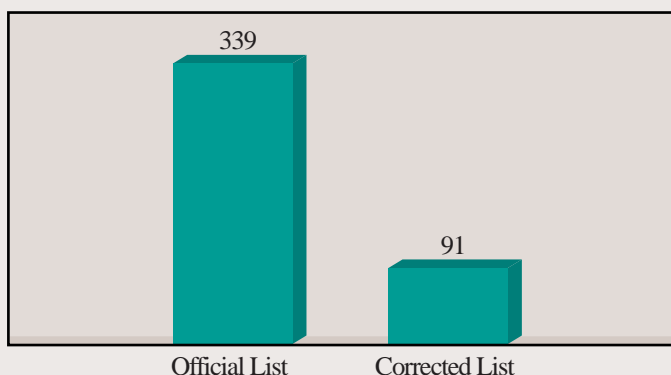
- Even this number is inflated, because as many as 70 of the species listed are naturally scarce in Canada because only the very northernmost part of their ranges cross into southern Canada.

- More than 80 of the listed "species" are subspecies or geographically defined populations of species.

A more accurate estimate indicates that the list of species at risk should be reduced from 339 to 91, or roughly 0.13 percent of the species known to exist in Canada.

Source: Laura Jones, "Crying Wolf? Public Policy on Endangered Species," *Critical Issues Bulletin*, November 17, 1999, Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, BC V6J 3G7, Canada, (604) 688-0221.

ENDANGERED SPECIES IN CANADA



Source: Fraser Institute.

Comparable Worth

Comparable worth, the idea of setting wages according to a theory of value instead of using market forces, has reappeared in proposals in Congress and in at least 22 states under the name of "pay equity."

Proponents claim that women's salaries are 75 percent of men's, and that the only way to eliminate this wage gap is to mandate equal pay for different jobs. But opponents of trying to codify comparable worth say the wage differentials exist not because of discrimination, but because many women have less work experience, choose jobs that pay less but give them more flexibility to combine work and family, and take time out of the workforce to bear and raise children.

Minnesota, the only state with a comparable worth law for state and local government employees, implemented it in the 1980s.

■ The Minnesota system created ill will among employees by raising the pay in job classifications with more than 70 percent female employees on the theory that wage disparities were caused by discrimination — but not raising the pay of job classifications that were only 69 percent female.

■ Because supervisory positions often were not female-dominated, in some cases women declined a promotion because it meant a pay reduction; for example, accounting supervisors with a degree were paid less than accounting technicians with fewer skills.

■ Minnesota had a policy of staying with the original job classifications, so classifications that recently became female-dominated do not qualify for comparable worth increases.

There was a reduction in the wage gap for Minnesota state employees between 1982 and 1997, but it is unclear what role, if any, the legislation played, since all women's wages rose during that period.

Source: Diana Furchtgott-Roth, "Comparable Worth in Theory and Practice," *What Works? XII*, January 2000, Lexington Institute, 1655 N. Fort Myer Drive, Suite 325, Arlington, Va. 22209, (703) 522-5828.

Expanding Unemployment Insurance

Under the Family and Medical Leave Act (FMLA), parents can take as much as 12 weeks of unpaid leave for the birth or adoption of a child. At President Clinton's direction, the Department of Labor has proposed a regulation that would allow states to pay the parents unemployment insurance (UI) benefits. Under the regulation, each state could decide whether to pay the benefits.

The Clinton proposal abandons the insurance aspect of unemployment insurance, which is based on the concept that unemployment is an involuntary risk, like the risk of fire or car accidents. The UI law now says that persons drawing UI "must be able and available for work and must not refuse suitable work." Benefits are provided for workers who are unemployed through no fault of their own. By contrast, persons on family leave are not available for work, and they are unemployed by choice. However, through tortuous reasoning, the Labor Department says it has the authority to interpret family leave as falling within the "able and available" requirement.

UI currently provides benefit payments to only 38 percent of the unemployed. Its sister program, the Employment Service, has not been able to document any effectiveness whatsoever at getting people working. As it now exists, the UI system encourages lengthy spells of unemployment. For example:

■ Economists Mark Gritz of the Battelle Institute and Thomas MaCurdy of Stanford University found that people who are eligible for UI have longer spells of unemployment than those who are not eligible.

■ University of Minnesota economist Brian McCall has found that high UI payments relative to previous wages increase the average duration of unemployment.

Instead of expanding the unemployment insurance system, policy makers should consider abolishing it. The American Institute for Full Employment

has proposed replacing UI with a version of its Full Employment Plan, which 14 states have used successfully in welfare reform. Instead of paying unemployment insurance benefits, the plan would provide a tax-subsidized job as a backstop for those who cannot find work. Such a plan would actually help more jobless people while reducing the unemployment insurance tax rates significantly.

Making UI benefits part of the FMLA may be politically appealing, but it takes public policy in entirely the wrong direction. It requires a costly expansion of an unemployment insurance program that already fails at what it was designed to do. A more constructive step would be to replace UI with a program that works.

Source: William B. Conerly, "Bad Idea: Paying for Family Leave," *Brief Analysis 312*, January 31, 2000, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

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