



# Executive Alert



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ALL THAT'S NEW IN THE WORLD OF IDEAS

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House Ways and Means Committee Chairman Bill Archer discusses his plan to reform Social Security at an NCPA briefing on Capitol Hill. Other panelists were, from left, Rep. Clay Shaw, Bill Shipman and NCPA President John Goodman. See related story on page E1.

## Sampling Stumbles

The Clinton administration has proposed to adjust the 2000 census using a sampling survey. Under the proposal, once the Census Bureau believes it has reached 90 percent of the population through the actual headcount, it will sample another 750,000 households and, using a complicated series of calculations, try to correct for both doublecounting and undercounting. The adjustments would be applied down to the level of individual blocks.

Supporters of the plan often imply that any opposition is based on partisanship or on resistance to scientific methods, but there are compelling scientific arguments against the proposed approach.

Sampling surveys after the official census have been used to study undercounts since 1940, but they have never been used to adjust official population

counts. Such surveys are even harder to implement than the census. The Census Bureau later analyzes other demographic information such as birth and death records. The analyses show that post-census surveys miss many of the same people who are missed by the census, and also make it appear that others were missed when in fact they were not. With the sampling approach, any small error is magnified when the results are applied to population counts.

- Even after the 1990 post-census survey adjustments were revised in 1991, the analysis of other demographic information showed that the adjustments apparently were 42 percent too low for black males, 25 percent too low for males of other races, 33 percent too high for black females and 50 percent too high for females of other races.

- The 1990 survey sometimes indicated differences of 10 percentage points or

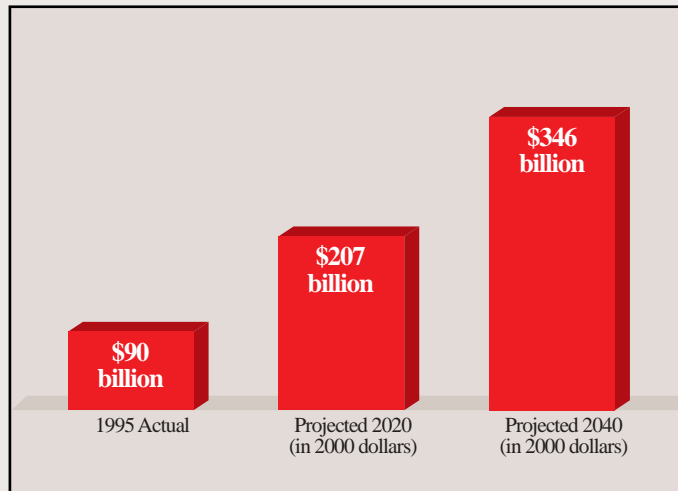
more in the undercounting of boys and girls, but the census counts for the affected areas were consistent with birth registration data, so adjusting the census would create new errors where errors had not existed before.

The Census Bureau's own unpublished evaluations documented clerical errors, fabrication of data by those taking the survey and other problems. These errors accounted for about 57 percent of the people that the adjustments would have added to the census count. Outside analysts suggest these accounted for at least 70 percent.

Any error in measuring undercount is multiplied by a simple statistical phenomenon that makes it very difficult to accurately measure small segments of the population by sampling.

Source: Kenneth Darga, *Sampling and the Census: A Case Against the Proposed Adjustments for Undercount* (Washington: American Enterprise Institute, 1999).

LONG-TERM CARE COSTS



Source: Congressional Budget Office.

Long-Term Care Costs

Overall demand for long-term care for the elderly is expected to rise substantially between now and 2040, increasing demand and expenditures for nursing home and home health care.

- The largest purchaser of long-term care is the federal government, mainly through Medicare and Medicaid, which accounted for just over \$50 billion, or about 56 percent, of long-term care expenditures for the elderly in 1995.

- Also, out-of-pocket expenditures by the elderly and their families are estimated to total \$34.3 billion by 2000.

- In addition, the Department of Health and Human Services estimates that the value of donated care from family members and friends ranges from \$45 billion to \$94 billion per year.

Projections by the Lewin Group and researchers at Duke University estimate that total inflation-adjusted expenditures for long-term care for the elderly will grow by 2.6 percent annually between 2000 and 2040.

- Expenditures are projected to reach \$207 billion in 2020 and \$346 billion in 2040, in inflation-adjusted 2000 dollars.

- This assumes that current trends in disability among the elderly will continue until 2040, with the proportion of the elderly who have functional disabilities — and therefore require assistance — continuing to decline on average by 1.1 percent a year.

- If the projected elderly population in 2040 had the same disability rate as that projected for 2000, total long-term care expenditures would be \$484 billion, about 40 percent higher.

The proportion of the population that is elderly, just under 13 percent in 1995, is projected to rise to 20 percent in 2040. More important, by 2040 the population over age 85 — the segment most likely to require long-term care — will grow to more than three times its current size.

Source: Stuart Hagen et al., "Projections of Expenditures for Long-Term Care Services for the Elderly," March 1999, Congressional Budget Office, Washington, D.C.

Invading Medicare Privacy

Under the pretext of regulating prices and assuring quality services, the Health Care Financing Administration (HCFA), the bureaucracy that runs the Medicare program, proposes to require 9,000 home health care agencies to collect and report sensitive personal information on their patients — without their consent or knowledge. They would transmit this information to an evolving federal database, the Outcome and Assessment Information Set (OASIS).

- The information will include each patient's Social Security number, demographic characteristics, living arrangements and financial resources, as well as information on sensory, respiratory and elimination status, mental state, behavioral characteristics, range of activities, medication, productivity and "quality of life" characteristics.

- The psychological profiles will note whether the patient had expressed "depressive feelings," a "sense of failure," "thoughts of suicide," or used "excessive profanity" or made "sexual references."

- This information eventually would be made available to state

governments.

- Moreover, data would be collected on patients who are not being treated under Medicare and for whom no Medicare payment is being made or sought.

HCFA's proposed data collection is only the latest in a pattern of government intrusion into personal liberty and privacy. For instance:

- In the Health Insurance Portability and Accountability Act of 1996, Congress enacted the framework for a federal data collection system, including the storage and sharing of patient records.

- In Section 4507 of the Balanced Budget Act of 1997, Congress imposed unprecedented restrictions on private agreements between doctors and Medicare patients even where no federal tax dollars are involved.

- In HCFA's recent regulations setting up the "Medicare+Choice" program, medical records of seniors can be disseminated without the voluntary and informed consent of those patients.

Source: Robert E. Moffit, "HCFA's Latest Assault on Patient Privacy," Executive Memorandum No. 580, March 22, 1999, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400.

## Prescription for Disaster

President Clinton and several members of Congress are calling for a new Medicare entitlement to prescription drugs — even as the president has proposed setting aside 15 percent of the budget surplus in an effort to slightly delay Medicare's imminent financial collapse.

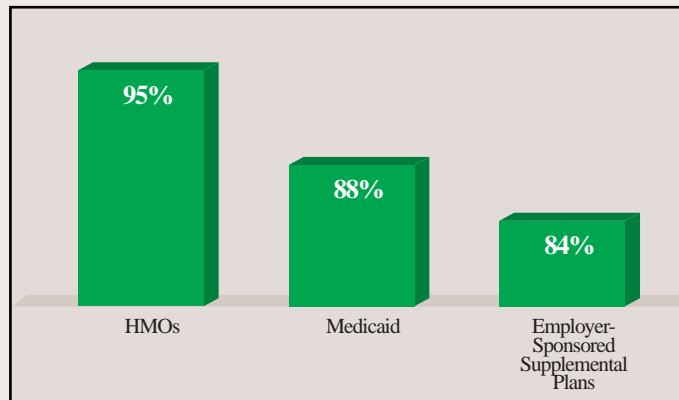
However, 65 percent of seniors had prescription drug coverage to help them with the costs. In 1995:

- 95 percent of Medicare HMOs provided their enrollees with a prescription drug benefit.
- 84 percent of seniors with employer-sponsored supplemental insurance had drug coverage.
- 88 percent of low-income seniors covered by Medicaid as well as Medicare had prescription drug coverage.

In addition to Medicaid, at least 11 states have special programs to provide supplemental prescription drug coverage, and other states are considering similar programs.

Some seniors are losing drug coverage because last year the Health Care Financing Administration, the federal agency that manages Medicare and Medicaid, cut back on reimbursement rates to managed care providers in the

## HEALTH PLANS THAT PROVIDE PRESCRIPTION DRUG COVERAGE TO SENIORS ON MEDICARE (1995)



Source: Margaret Davis et al., "Prescription Drug Coverage, Utilization and Spending Among Medicare Beneficiaries," *Health Affairs*, Jan.-Feb. 1999.

Medicare+Choice program. Some managed care plans got only a 2 percent increase in 1999, even though health care costs were rising about 7 percent. As a result, many of the largest HMOs cut benefits or dropped out of the program, leaving some 500,000 seniors, many with drug coverage, scrambling to find a Medicare HMO. Some had to switch back to traditional Medicare. But since Medicare beneficiaries are guaranteed enrollment in any supplemental policy only for the first six months after they reach age 65, they may have been unable

to get a policy offering prescription drug coverage.

The solution to the prescription drug problem for the elderly is to increase private-sector involvement. It is the private sector that is providing seniors with prescription drug options. It's the Clinton administration that's taking the options away.

Source: Merrill Matthews Jr., "A Prescription for Medicare Disaster," *Brief Analysis No. 288*, April 19, 1999, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## Rationing in Australia

Hospital waiting lists show that health care rationing is increasing in Australia, which has a mixture of publicly funded and private health care. According to a January 1999 report by the Perth Metropolitan Health Services Board:

- The majority of seriously ill patients in West Australian public hospitals were not operated on within accepted benchmark times.
- More than half the patients wait two months or longer for their operations, while some wait a year or more — and there are similar waits across the nation.

■ Many of those kept waiting for months are patients whom surgeons say should be operated on within 30 days.

■ Patients in the publicly funded system can't get many of the drugs available in the United States and Europe.

Today, government pays about 70 percent of all health care costs and private insurance pays another 13 percent.

■ When Medicare, Australia's publicly funded health system, was introduced in 1985, about half the population had private health insurance.

■ By 1997 the privately insured rate had fallen to 32 percent and by the end of 1998 it had fallen to around 30 percent.

■ Insurers are required to charge all policyholders the same "community-rated" premium — which attracts sicker policyholders and raises costs, encouraging the healthy to drop coverage.

Australia spends 8.5 percent of its gross domestic product on health care — exactly the average for countries in the Organization for Economic Cooperation and Development, omitting the United States — but costs are likely to rise. For example, expenditures under the public drug benefit plan have doubled in the past six years, from AUS\$1.5 billion to AUS\$3 billion.

Source: Steven Schwartz, "Saving Australia's Health Care System: Nostrums or Cures?" *Policy*, Autumn 1999, Center for Independent Studies, 38 Oxley Street, St. Leonards, NSW 2065 Australia, (02) 94384377.

## Britain's Privatized Social Security

The Social Security system in the United Kingdom is partially privatized. Virtually every worker is eligible for a basic state pension, and most can enroll in a second tier of state pension benefits. But they also can choose to divert a portion of their national payroll taxes to private pension investments. The results of the British reforms are impressive.

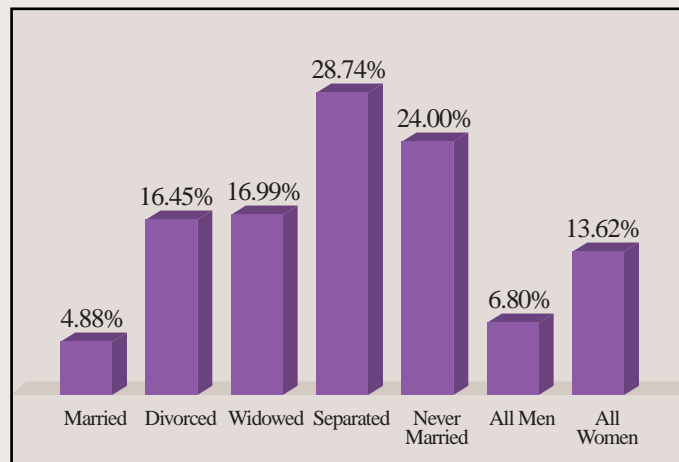
- More than two-thirds of British workers are “contracted out” of the second tier of the government pension system and enrolled in private plans.
- British workers have enjoyed a 10 percent real return on their pension investments over the past few years, and over the past two decades the income of British retirees has increased by 60 percent — more than for any other segment of the British population.
- The pool of private pension funds in the U.K. now exceeds £830 billion (almost \$1.4 trillion), slightly more than the size of the British economy and larger than the private pension funds of all other European countries combined.

Prime Minister Tony Blair, who heads Britain's Labor government, wants to expand workers' access to private pension options and fix specific problems with the current system. Officials have proposed a new system that would retain the basic state pension, with its flat rate benefit, but increase it in line with prices. Other features would include:

- New “stakeholder pensions” — available to all workers — that would combine the best features of current employer-based and personal pension plans, which are the dominant private plans in Britain.
- A minimum-income guarantee for all retirees and replacement of the existing State Earnings-Related Pension System (SERPS) with a second-tier government pension system that offers better benefits to low-income workers.

Source: Robert E. Moffit, “Learning from Britain's Next Step in Privatizing Social Security Benefits,” *Backgrounder No. 1251*, February 12, 1999, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400.

## PROBABILITY THAT PEOPLE AGE 65 AND OVER WILL BE BELOW THE POVERTY LEVEL (1997)



Source: Urban Institute, 1999, based on Current Population Survey.

## Divorce and Social Security

Social Security follows the rule that a divorced person married for 10 years or more is entitled to full spousal and survivor benefits, while one married less than 10 years is entitled to none. As a result:

- If a worker divorces a spouse after 9 years, 11 months and 27 days of marriage, the spouse gets nothing from Social Security in auxiliary benefits and is entitled to no share of the worker's benefit. (Spouses can still get benefits on their own earnings.)
- If a worker has four spouses in succession, each for 10 years and 1 day of marriage, those spouses are entitled to hundreds of thousands of dollars more in Social Security benefits due to the marriage than the always-married spouse of another worker paying the same amount of taxes.
- A divorced person who was married to a much older worker will, on the average, get substantially more benefits than a divorced person who was married to a worker of the same age — because those who marry older workers are more likely to get survivor's benefits, which are more generous than spousal benefits.
- A middle-class divorced spouse of a rich worker could face a significant mar-

riage penalty — forfeiting her survivor's benefits — if she marries another middle-class worker.

In the past, inequities in Social Security's treatment of divorce affected only a modest number of retirees because of the infrequency of divorce and the high frequency of remarriage among divorcees. But divorce is increasingly prevalent today. And because women are more likely than men to receive survivor's benefits or spousal benefits based on the income of a higher-earning spouse, these inequities contribute to poverty among elderly women.

- The percentage of women currently divorced has risen among all age groups, more than tripling from 2.54 percent in 1970 to 8.16 percent in 1997.
- Among men and women ages 65 and over, the currently divorced are more likely to fall below the poverty line than those who are married; the probability is even greater for those who are widowed, separated or were never married; and the overall poverty rate is much higher for women than men.
- Women comprise 73.4 percent and men only 26.6 percent of poor seniors.

Source: C. Eugene Steuerle, “Divorce and Social Security,” *Brief Analysis No. 291*, May 21, 1999, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## Earmarks for Pork

A type of pork-barrel spending called “earmarks” wastes billions of dollars and undermines federalism. Earmarks usually appear in appropriation or authorization bills and require that money be spent on specific projects, ignoring funding formulas that allocate federal assistance to the states to spend on their own priorities. For example:

- The Oregon Department of Transportation is required to spend its federal highway funds to construct a couple of bicycle paths and to improve pedestrian access to a light rail system.
- Virginia officials must repair a historic wooden bridge and construct some facilities for a music center.

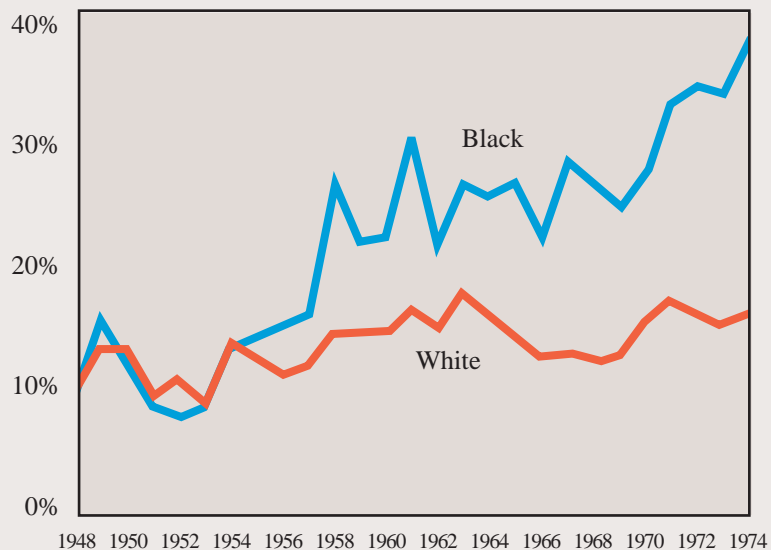
Between fiscal years 1985 and 1999, spending growth for annual earmarks increased substantially faster than inflation-adjusted federal domestic discretionary spending. The growth appears to be accelerating; for instance, the number of earmarks in five appropriations bills doubled between 1998 and 1999.

- Nearly 500 earmarks in the Military Construction appropriations bill will consume 42 percent of such spending.
- The Energy and Water appropriations bill for 1999 contained over 1,800 separate earmarks.
- The Transportation Equity Act for the 21st Century (“TEA 21”) enacted in 1998, had 1,850 earmarked projects, compared to fewer than 200 in the 1987 transportation bill.

Highway earmarks, formerly called “demonstration projects,” were retitled “high priority” projects in TEA 21. These marginal projects usually require matching local funds, but half the highway earmarks are not included in state transportation plans due to lack of matching money.

*Source: Ronald D. Utt, “How Congressional Earmarks and Pork-Barrel Spending Undermine State and Local Decisionmaking,” Backgrounder No. 1266, April 2, 1999, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400.*

## UNEMPLOYMENT RATES: MALES, AGES 16 & 17



*Source: Bureau of Labor Statistics.*

## Teen-age Job Killer

It appears likely that Congress will raise the minimum wage again this year, probably from \$5.15 per hour to \$6.15 over three years. The federal minimum wage was first enacted in 1938, but applied only to workers engaged in interstate commerce. This meant that the vast majority of workers were exempt from the law.

The first data on teen-age unemployment are from 1948. Teen-age unemployment at that time was quite low by today’s standards and actually lower for blacks than for whites.

- As late as 1954, the unemployment rate for black teen-age males ages 16 and 17 was still below that of their white counterparts: 13.4 percent vs. 14 percent.
- Over the 1948-1955 period unemployment averaged 11.3 percent for black teen-age males and 11.6 percent for whites.

Beginning in 1956, however, when the minimum wage was raised from 75 cents to \$1, unemployment rates of the two groups began to diverge. Soon unemployment rates were significantly higher for both black and white teen-age males, but more for blacks. By 1960, the unemployment rate for black teen-age

males was up to 22.7 percent, while the white rate stood at 14.6 percent.

Congress brought employees in large retail and service enterprises under coverage in 1961, and increased the minimum wage then and again in 1963. By 1963, the unemployment rate for black teen-age males was up to 27 percent and for whites to 17.8 percent.

The minimum wage was further increased in 1967, 1968, 1974, 1975, 1976 and annually from 1978 through 1981. At each point the unemployment rate for black teen-agers tended to ratchet higher. By 1981, the unemployment rate for black teen-age males averaged 40.7 percent — four times its early 1950s level, when the minimum wage was much lower and its coverage less extensive. That year, the federally mandated Minimum Wage Study Commission concluded that each 10 percent rise in the minimum wage reduces teen-age employment by between 1 percent and 3 percent.

Whatever the political realities may be, raising the minimum wage is still bad policy.

*Source: Bruce Bartlett, “The Minimum Wage: Teen-age Job Killer,” Brief Analysis No. 292, May 21, 1999, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.*

## Federal Land Mismanagement

The federal government now owns one-third of the land in the United States and manages most of it through four federal agencies — the Bureau of Land Management, Fish and Wildlife Service, Forest Service and National Park Service. Recent reports by the federal government's own watchdogs conclude that these agencies are not doing a good job. For example:

- The U.S. General Accounting Office (GAO) reported that the cost of eliminating the agencies' backlog of maintenance problems on public lands exceeds \$12 billion.
- The Inspector General of the U.S. Department of Agriculture found serious accounting deficiencies in the Forest Service, including "pervasive errors" in accounting for land, buildings, equipment, accounts receivable and accounts payable.
- In April 1999 the Congressional Budget Office recommended that Congress place a 10-year moratorium on future appropriations for land acquisition, saying federal land management agencies were having difficulty managing what they already have.

Despite such internal management problems, both President Clinton and the 106th Congress have proposed establishing trust funds with billions of dollars to purchase even more federal land, which these agencies would then control.

*Source: Alexander F. Annett, "The Federal Government's Poor Management of America's Land Resources," Background No. 1282, May 17, 1999, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400.*

## Environment Improves

Environmental quality in Canada, the United States and the United Kingdom has consistently improved since 1980, while Mexico's environmental indicators remain stable overall with improvement in specific areas, including air quality. This is the finding of an international index that weighed a number of environmental indicators for the four countries.

- Overall environmental quality improved 10.8 percent in Canada, 18.6 percent in the U.S. and 10.4 percent in the U.K., relative to conditions in 1980.
- Mexico's overall environmental quality remained the same relative to 1990, with some indicators showing deterioration and others showing improvement.
- Forests are increasing in North America and the United Kingdom as the amount of growth exceeds the harvesting of trees.
- Critical wetland habitat is not declining in North America, and the amount of

land set aside for parks, wilderness and wildlife is increasing in all four countries.

Air pollution from sulfur dioxide, nitrogen dioxide, carbon monoxide, particulates and lead has decreased considerably. For example:

- Between 1975 and 1995, the ambient level of sulfur dioxide decreased 61.5 percent in Canada and 60.7 percent in the U.S., and it decreased 92 percent between 1976 and 1996 in the United Kingdom.
- Ambient levels of sulfur dioxide in Mexico City decreased 50 percent between 1988 and 1996.
- Ambient lead concentrations fell 99.9 percent in both Canada and the U.S. between 1976 and 1994, 90.1 percent in the U.K. between 1980 and 1995 and 82.5 percent in Mexico between 1990 and 1995.

*Source: Steven Hayward, Laura Jones et al., "Environmental Indicators for North America and the United Kingdom," Critical Issues Bulletin, April 1999, Fraser Institute, 4th Floor, 1770 Burrard Street, Vancouver, B.C. V6J 3G7, Canada, (604) 688-0221.*

## Cancer in Louisiana

If environmental chemicals cause cancer, Louisiana is a reasonable place to look for evidence. Chemical emissions in the parishes (counties) along the Mississippi River from New Orleans to Baton Rouge are well above the national average. However, a study finds that people in the area get cancer less often than average, although they die more frequently from it. Researchers from the Louisiana State University Medical Center reported in the April 1998 *Journal of the Louisiana Medical Society* that:

- The incidence of cancer in black women, white women and black men was below the national average in the river parishes, and the incidence in white men was at the national average.
- However, black men and women in those parishes have above-average mortality from cancer, as do white men.
- Only white women, who have a below-average incidence of cancer, also have a cancer mortality rate below the

national average.

The explanation for the above-average cancer mortality may lie in another characteristic of these parishes: poverty rates are above the national average. Many studies have established that poor people are less likely to receive needed medical care and that improved access to medical care and better health are associated with higher incomes.

Studies also have shown that the level of chemicals released by industrial plants is too low to pose cancer risks. Nonetheless, activists stopped the construction of a chemical plant in largely black St. James Parish, arguing that minorities and the poor have higher environmental exposures to chemicals — a claim that most studies don't support. The plant would have provided 700 jobs, thus raising incomes and improving access to medical care for workers and their families.

*Source: Michael Gough, "Does Environmentalism Kill?" EPA Watch, March 10, 1999.*

## Reducing Emissions

The link between greenhouse gas emissions and global temperature increases is uncertain, and some scientists believe the net effect of any global warming could be beneficial. Still, the United States has signed — but not ratified — an accord drawn up at Kyoto, Japan, in late 1997 that would obligate the U.S. to reduce its carbon dioxide (CO<sub>2</sub>) emissions from consumption of fossil fuels to 7 percent below 1990 levels between 2008 and 2012.

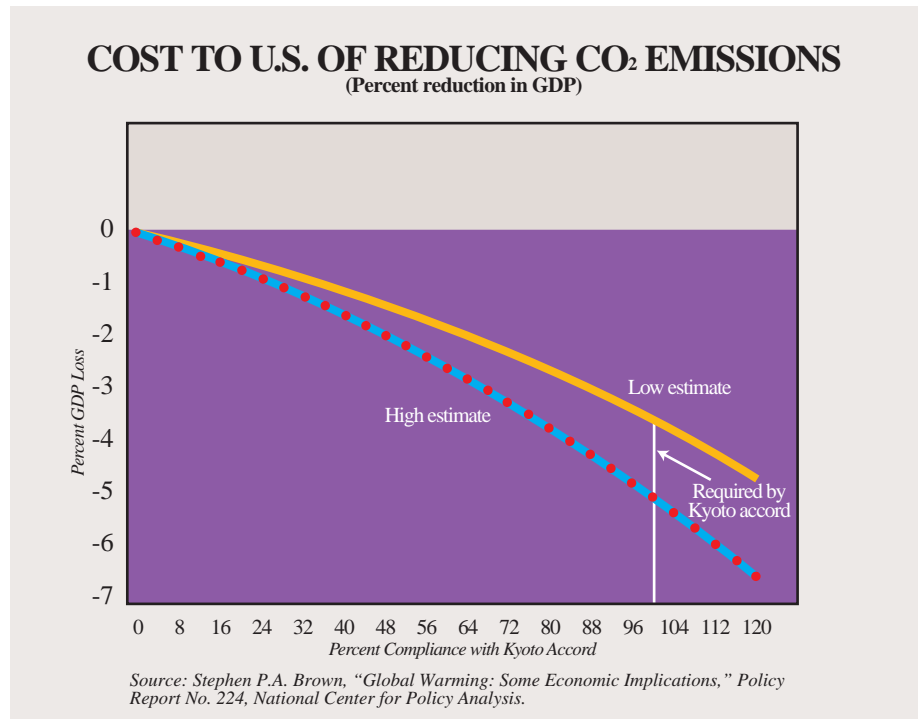
Compliance with the accord would require the U.S. to reduce its energy consumption by about 25 percent below the amount that would otherwise occur. To appreciate what this would mean, consider that about one-fourth of total U.S. energy consumption in 1996 was for transportation. One way of reducing energy use in the United States by one-fourth would be to stop nearly all highway, rail, sea and air traffic permanently.

Economists often use cost-benefit analyses to determine whether government action should be taken and, if so, what action will produce the best results at the least cost. The benefit of reducing CO<sub>2</sub> emissions can be expressed as the economic value of avoiding the environmental damage that might arise from global warming. The cost can be expressed in terms of lost economic opportunities as a result of using less fossil fuel. An analysis of the costs and benefits finds that:

- The amount of CO<sub>2</sub> emissions reduction that can be justified for the United States based on cost-benefit analysis is only about 14 percent of that required by the Kyoto treaty.
- Thus the treaty would require seven times more CO<sub>2</sub> reduction by the United States than is justified by a comparison of costs and benefits.
- Similar results apply to other developed countries.

Regardless of its impact on the world as a whole, CO<sub>2</sub> emissions reduction would be costly for the United States.

- Without any offsets or credits from



trading emission rights with other countries, U.S. GDP would be 3.6 percent to 5.1 percent lower in 2010, representing a loss of \$330 billion to \$467 billion or about \$1,100 to \$1,600 per capita.

- Even assuming the United States could use offsets and credits, compliance would cost the U.S. from

3 percent to 4.3 percent of GDP, representing a loss of between \$921 and \$1,320 for every man, woman and child in the country.

Source: Stephen P. A. Brown, "Global Warming Policy: Some Economic Implications," Policy Report No. 224, May 1999, National Center for Policy Analysis, 12655 N. Central Expressway, Suite 720, Dallas, Texas 75243, (972) 386-6272.

## Renewable Energy Problems

Many environmentalists have long decried America's reliance on fossil fuels for energy, advocating in their place renewable energy sources such as solar and wind power. However, the disparity that has always existed between the cost of electricity generated by fossil fuel and that generated by solar and wind power is narrowing little if any.

- The costs of wind and solar power have dropped by an estimated 70 percent and 75 percent, respectively, since the early 1980s.

- Yet natural gas technology today can produce electricity at half the cost or less of electricity from wind farms, and with more flexibility and reliability.

- The competitive gap with solar power is even more pronounced, since solar power costs three or more times what wind power costs.

There is also an enormous quantity disparity. One large combined-cycle gas plant can produce more electricity than all the wind and solar facilities in the United States combined.

Other renewable alternatives such as geothermal, hydropower, biopower (such as converting municipal garbage to electricity in incinerator plants) and fuel cells appear even less likely to gain market share in the foreseeable future because of even higher costs or environmental side effects.

Source: Robert L. Bradley Jr., "The Increasing Sustainability of Conventional Energy," Policy Analysis No. 341, April 22, 1999, Cato Institute, 1000 Massachusetts Avenue, N.W., Washington, D.C. 20001, (202) 842-0200.

