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Health care costs overwhelming budgets

By Jim Nowlan

The overtime budget battles going on right now in Illinois and many other states are largely caused by relentless increases in health care costs that for decades have been growing faster than the tax revenues to pay for them. And it is only going to get worse, as the Baby Boom Generation moves into old age, where they will devour health care.

As a child in about 1950, I recall coming home from grade school with a flyer that encouraged my parents to buy health insurance for me at $1 per month from a new company called Blue Cross. Back then, few had coverage, and the cost to society of health care was modest.

But all that has changed, dramatically. [For example, where is the commercial growth in your nearest city? At the hospitals, I will bet, which are also often the largest employers in town. And what occupations do you encourage your children and grandchildren to enter? Again, health care, I'll wager, as that's where the jobs are.]

Today, health care costs overall consume almost one-fifth of our total gross domestic product (18 percent). Health care spending by all governments is almost 8 percent of GDP, up from only 1 percent when I became active in politics in the mid-1960s.

In Illinois, annual costs for the low-income (as well as many once middle-income persons in nursing homes) through tax-paid Medicaid increased by 250 percent from 1989-2009 in inflation-adjusted terms, far surpassing expenditures for education.

We all want the latest and best health care, and right now, if you please. I'm no exception. Not long ago I had prostate cancer treatments via a new-fangled proton beam therapy, which I am told cost about $100,000, versus the $30,000 or so cost of regular radiation therapy. Medicare and my state employee health program paid for it all.

The *Washington Post* reported recently on research that attributes up to two-thirds of the increased costs of health care from 1940 to the present to new and improved technologies. I only expect technological change to accelerate.

Almost in tandem with the sharp increases in health care costs over recent decades, an effective anti-tax movement has developed, sparked by Grover Norquist and his Americans for Tax Reform, beginning in 1985, which opposes *any* tax increases. The popular cry has been taken up by the Tea Party and others; after all, who wants higher taxes?

As a result, elected officials such as the many who have signed the Norquist anti-tax increase pledge have to look elsewhere to accommodate popular health care programs (Remember the famous "Don't touch my Medicare" declaration of one tea partier).

The result has been that other programs have been cut. For example, according to the U.S. Governmental Accounting Office, from 2003 to 2012 state funding for higher education across the country declined by 12 percent while enrollments were going up by 20 percent.

Illinois has been no exception in this reduction in spending, and this year Gov. Rauner has proposed a 31 percent reduction in dollars for higher education, though the alarming figure may be for negotiating purposes.

In recent years in Illinois, spending for the state Department of Children and Family Services has also declined significantly, and further reductions are proposed for the coming year.

Since the lion's share of health care spending is on older folks, our society is in effect shifting spending from young people to seniors.

And Baby Boomers, born after World War II, represent a demographic pig moving through the python, with large numbers now entering retirement years.

This equation is rock solid: If health care costs grow at annual rates faster than the underlying tax base, and if that base remains unchanged, then cuts will have to be made in other programs, often those that serve young people.

None of us wants higher taxes, so what to do?

The obvious place to start is to reduce health care cost increases to no more than the rate of revenue increases.

For example, some state governments have begun requiring Medicaid enrollees to make small co-pays for services, even imposing a penalty of some sort for unnecessary emergency room visits, which are ungodly expensive.

We could also disallow payment for the most expensive treatments and drugs, if they fail to show significantly better outcomes.

Most states have put Medicaid patients into managed care (Illinois is catching up here), which provides a single overseer of a patient's healthcare and should deflect patients away from emergency rooms.

Unfortunately, none of the above has shown yet that they do indeed reduce costs much.

The options are terrible: Reduce the amount of health care or increase taxes or shift more spending from young people to old people. I think the last one is worst of all.