Refute and Replace: an attempt at common sense analysis of Obamacare

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Executive Summary

Obamacare has its stated intent the increase in the provision of quality healthcare to all Americans, at lower costs. Its actual outcome will clearly be increased taxes on the middle and upper classes, vastly increased insurance costs for the middle and upper classes, reductions in healthcare, huge economic pressure on small and medium businesses (which will presumably lead both to bankruptcies and higher unemployment), economic pressure on healthcare providers, economic pressure on insurance companies, large increases in Federal control of our healthcare sector, and HUGE amounts of deficit spending, as aggregate spending will increase enormously in sectors like Medicare and Medicaid which were ALREADY underfunded when this law was passed.

Obamacare will hurt most Americans, help few, and there are clear and easily actionable alternatives which I describe at the end.

Introduction

Anyone wading into the specifics of Obamacare is easily confused without a clear template for understanding what is being proposed, why it is being proposed, and whether or not it is a good thing for most Americans.

I have not seen a clear treatment of this topic, and aim here to remedy that gap. As I see it, prior to beginning any specific discussion of Obamacare, it will first be necessary to explain what the goal is. Having established that, we need to understand the components involved, specifically: how businesses work; how health insurance works; how healthcare works; and how government works.

Only following a good understanding of these basics is a discussion of the Patient "Protection" and "Affordable" Care Act warranted.

The goal, one would assume, is a healthier nation, in which people work more effectively, and are healed more rapidly when their minds or bodies are affected by an illness than they are currently, at costs that are the same or lower than they are presently paying.[1] The goal, in others words, is to use the power of the government to help an existing service be delivered more efficiently.

A core stipulation that must be made at the outset is that the primary doctor ALL Americans have is themselves. We all know that being obese, out of shape, smoking, doing without sleep, alcoholic, chronically stressed and the like breed illness. So does old age—necessarily--which invariably ends in death, typically after a prolonged period of declining health.

Any intelligent strategy will harness the energies of the American people in supporting their own health. In achieving success in any project, one must have accurate information, motivation, and physical capability. A good plan will focus on maximizing all three elements.

[1] The underlying assumption of Obamacare is that this is properly a concern of the Federal Government. I see no license in the Constitution for that—that role ought properly to be that of the sundry States--but will confine myself here to a description of the reality in which we all presently live.

I

How business works

I will deal with the actual businesses of healthcare and health insurance presently, but for now let us take an unrelated business, say that of a fast food franchise, and for the sake of being concrete that of Kentucky Fried Chicken.

Harland Sanders began serving fried chicken in the 1930's from a gas station he owned in North Corbin, Kentucky, typically to travelers passing through on their way to Florida. How he bought the gas station, I don't know, but the normal route is working hard, saving money, and amassing the money necessary. Sometimes it is borrowing money from banks or individuals, and paying it back when you succeed, and declaring bankruptcy when you fail.

There was a first day he opened for business. It was likely an existing gas station, that he had perhaps bought from someone, so he knew what the rough business would be, but perhaps he built it from scratch, having noticed that the road was well-travelled and that he would be providing a public service with his gas station to people who would otherwise not have been able to buy gas at that particular spot. He had a gas station there in other words, because he correctly surmised there was a need for it, and it would not have come into being or continued being had he not devoted his energies to it.

When people stop on the road they are often hungry, so he offered food. Again, he provided a needed service, one which would not have been available if he had not put his energies into it.

His business consisted in buying gasoline at one price, selling it for a higher price, and keeping the difference. His chicken business consisted in buying the chicken for one price, adding labor, and charging a higher price for it. Had he not earned profit, he would not have been in that business, and travelers would not have had access to gas and food at his location.

He had no way of knowing, for sure, what his daily income would be. Some days he no doubt made a lot of money, and some days he wondered how he was going to pay his bills. He likely worked somewhere between 12 and 16 hours a day because failure would have been disastrous in that region, in the thick of the Great Depression.

This uncertainty about on-going success is an unavoidable fact in running a business. It causes fear, and the fear of failure is one reason why many people don't go into business for themselves, even though it is an option for all of us, over some time horizon. He was not born rich, and made his way through hard work.

Net Profit is revenue less costs. If he had a lease, he had to pay that every month from the proceeds of his business. If he had a mortgage he had to pay that every month. If he had employees, he had to pay them what he had promised, regardless of how much (or, to the point, how little) money he made. He had to pay taxes on the business revenue, and probably on his personal revenue since he was likely incorporated.

[Since "corporations" are often demonized, and shock expressed that corporations are treated legally like people, it might make some sense to deal briefly with this topic. From the dawn of the first common stock corporation to the present, incorporation (which is related etymologically to Corps, and Corpse, for "body) has served one purpose: limiting potential losses in the event of failure. The corporation "owns" property, not the individual running it. This means that if it goes bankrupt, only those assets it holds are taken, and not the personal property of the person running it. Prior to the innovation of incorporation, failures meant personal ruin for investors.

Historically, corporations were initially formed for risky trade conducted overseas, for example with China or India, in which a certain percentage of ships were lost at sea. This trade by definition was useful, since only those products were purchased overseas which people WANTED, and were willing to pay for. The risks taken by investors, if they were profitable, were ONLY profitable because they provided a desired service at a price people were willing to pay; a service, it must be said, that would otherwise not have been provided.]

It is worth emphasizing as well that the flip side of profit is failure. Many people form companies in the hope of making money, and instead, if they are providing a product or service which people either do not want, or do not want at the price they have to charge, they are unable to pay their bills. By definition, any company which stays in business MUST be providing something people want at a price they are willing to pay. There are of course many ways to interfere with market forces, but this fact is in all cases ineluctable, even in cases of monopoly.

Sanders unquestionably had competitors, people trying to secure the same business he was getting. They could take it from him in several ways. One, they could sell gas or chicken more cheaply. This they could do by buying gas at a lower price, or by having lower costs, or by demanding less profit. Two, they could provide superior service at the same or even a higher price. They could be more friendly, quicker to the pump,

more thorough in cleaning windshields, having cleaner bathrooms, better marketing, etc.

To stay in business, he had to keep all this in mind. The very survival of his business depended on it. At various times, he likely used all of these strategies. In his particular case, part of his appeal was clearly that he made the best fried chicken in the area. If you had to get gas, and had several options, why not try the place everyone said had the best food in the Appalachians? In other words, competitive pressures caused him to INNOVATE.

His chicken was so good that he was awarded an award seemingly peculiar to Kentucky, that of Kentucky colonel, by the Governor.

Then a highway was built, bypassing his restaurant, and his business was ruined. Back to the drawing board, he invented a quicker, better way of frying chicken, in a pressure cooker, and using a proprietary blend of herbs and spices that is a carefully guarded secret to this very day (as is the recipe for Coca-Cola). He then decided to grant people the right to his recipe and methods, in exchange for what amounted to a royalty on every meal sold.

His first franchise was in Utah, where his chicken was sold at an existing restaurant, and soon proved extremely popular, to the extent that he started signing up new clients at a very rapid pace.

Change in his business environment, in other words, caused his previously valuable service to be much less valuable, forcing him again to INNOVATE, and create something that did not exist before. The increase in sales of his product necessarily meant that his product was one desired by the public and one which would not have existed if he had not been trying at a minimum to pay his bills, and with luck amass a fortune.

The subsequent history is long and convoluted (Dave Thomas, as one example, was an early franchisee and came up with the idea of the rotating bucket; the bucket itself was almost an accident, and the result of another franchisee buying up paper buckets created for another purpose entirely at a steep discount, and INNOVATING with respect to a new and popular way of packaging the chicken meals. You can read about it here (http://en.wikipedia.org/wiki/KFC), but the net is that from his initial idea, a long series of new ideas and products evolved, such that KFC is today an internationally recognized brand.

Fast forward to today. There are about 17,000 KFC franchises, some of which are owned by the KFC Corporation, but the vast majority of which are owned by individuals, who in effect pay royalties for the name and process. Part of being able to use the name involves adherence to a very systematic process of quality control, such that you can go to any restaurant anywhere in the world, in principle, and get the same food. Many people value this, which is why so many choose to eat there, and hence why so many people invest their money and energy opening them.

KFC and its franchisees employ an enormous quantity of people, who, if they did not work there, may not work at all. One sees this idea that if one company you don't like fails, that some other company will take up the slack by hiring those people. Why would this be so? Every company in existence came into being as a result of the desire to solve a problem of supply that the public had, and succeeds on a sustained basis ONLY if it provides a product or service people want at a price they are willing to pay. If KFC went under, some other company providing the same service would come into being, or that product would stop being delivered, and those jobs lost permanently until some new innovator came along.

Corporations like KFC provide ALL revenue which the local, State, and Federal governments use to pay their bills, both in terms of taxes levied on the corporate entity itself, and the wages paid the employees.

As I will discuss, governments can borrow money, but that is money that has to be paid back out of tax revenue, and usually with added interest. Governments can inflate the currency, but by devaluing the value of everything else, that, too, amounts to a tax levied on the private sector.

Ultimately, then, there is no path which is fiscally sustainable than that of collecting taxes from profit making institutions and the individuals they employ. The solvency of government, then, is necessarily tied to the solvency of corporations like KFC. This point is unavoidable.

II

How Health Insurance Works

Insurance, like incorporation, is a means of managing risk. Managed risk means people take more chances, and thus create more. It has been essential to our modern economic miracle.

We all know that bad things happen. Houses burn down, thieves take things, tornadoes and hurricanes hit. But they don't hit ALL of us ALL the time. They hit some people, and leave everyone else fine. Across any broad population, you can predict that a certain number of bad things will happen, even if you don't know what will happen to who when. The possibility of structured risk assessment, however, is essential to the modern business of insurance.

With respect to health insurance, actuaries can say that in a given population of one million people, approximately X number will have heart attacks (a number higher among smokers, who pay higher premiums), Y will get some form of cancer, Z will get hit by cars, etc. Across wide populations, largely accurate statistical summaries can be built which enable health insurance providers to estimate what their likely costs are going to be in any given year, and calculate premiums which are higher than their likely costs. The difference is both their profit and their reason for being.

Without profit, they would not provide this service. Those companies and those jobs would not exist. If they did not provide this service, many would be faced with catastrophic medical expenses, and have no way of reducing this risk. (Obviously I will be dealing eventually with the idea that government could provide this service better and at a lower cost).

Insurance carriers compete with one another. As in all competition, the goal is to provide the best product at the lowest price. What product is best? Well, can this question be answered finally? Would it not depend on your needs? Healthy people need one type of coverage, and those who abuse their bodies need another.

That market would be best which best allowed insurance carriers to innovate, and consumers to decide which products were best by voting with their money. As things stand currently, most Americans do not have access to a market in which insurance carriers are allowed to innovate, or are even allowed to compete.

As one obvious example, roughly half of Americans do not have the ability to buy insurance directly from the carrier. If you live in, say, California or New York, you MUST get the insurance through your employer. Why? You buy car insurance directly. You buy life insurance directly. You buy home-owners insurance directly. Why not health insurance?

It is one of the ironies surrounding this topic that the people most likely to support Obamacare are in Blue States which are least likely to allow carriers to sell policies directly to end users. Because of this, they assume their only other option is the government.

To illustrate this, here[2] (below: I can't get the embedded links to transfer to PDF for some reason) is the website for Humana, where they offer to sell individual insurance plans, with a product called HumanaOne. If you try to get a rate quote for California, they tell you the product is not offered. If you try to get a quote for New Jersey, they tell you the product is not offered.

In such States, the way it works is you can ONLY get insurance from your employer, and if they don't offer it, you CAN'T GET IT, at any price, from anyone. Often you also can't get it if you let coverage lapse for more than sixty days or so. This is why COBRA was created: it allows you to keep the group benefits you had when you were employed when you become unemployed.

The problem with this, though, is that your employer was typically paying much of the cost for the insurance, bought something comprehensive since it was a part of the benefits package they used to attract and retain you, and so it is VERY EXPENSIVE. Since very expensive and unemployed do not go well together, many if not most of the people who could afford less comprehensive individual insurance cannot afford to keep the same insurance they had, and thus become uninsured.

Several years ago, when Obamacare was first being proposed, I compared which States were Right to Work with which States allowed carriers to offer individual plans, and the match was nearly exact. This is why it is my contention that the principle reason that many States ban (or more precisely, do not allow) the sale of insurance to individuals is that labor Unions of various sorts have successfully lobbied to prevent it. The reason is simple: they offer their members health insurance. If their members could get insurance without joining a union, their value proposition would be diluted, as would their relative power. They, too, have to provide a service that people want at a price they are willing to pay (absent government coercion).

For those unfamiliar with the concept of Right to Work (again, for those in predominantly Blue States which also do not offer individual insurance) there are States

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[2] https://www.humana-one.com/secured/individual-health-insurance-quotes.aspx?kc=1005016581&cm_mmc_o=ZAFzEzCjCZAFzEz.gBFCjCZBFw%20VzTwCjC7wf%20z%20dyww%20hABfw%20C%20PAffBE&op559homepage1liid=a09p0mp0xg28aez0ir6dwcddc

in this country in which Unions can force people to join in certain industries, and States where they are not allowed to by law. To be perfectly clear, individual laborers are in some cases forced more or less BY THE STATE to join Unions, which violates, in my view, a very basic freedom: that of negotiating the terms of your own employment. I in no ways oppose private sector Unions—they are an integral part of Capitalism and free markets--but do STRONGLY oppose ones which coerce membership.

Historically, insurance premiums paid by employers were tax exempt. This allowed corporations to in effect pay more to their employees without paying added taxes. It is not a bad system, but has one large drawback: it insulates people from the costs of their healthcare.

Let me explain. Let's say you make $50,000 a year, plus have insurance covered by your employer. Let us say they cover it fully, as many large corporations do. What they are ACTUALLY spending on you as an individual might be, say, $60,000. Leaving aside 401K's and the like, let us make your total compensation, then, $60,000. With them spending $10,000 a year on a basically healthy person, they can afford to provide any number of extras. They can include "free" dental checkups. They can include "free" MRI's. They can include "free" wellness visits. Basically, you go to the doctor, give them your insurance card, and the clerks in the back take care of it. You never pay out of pocket, or at most a minimal copay of $20 or something.

But let's say you had paid cash for all these things, such that they weren't "free". Dental checkup: $200 with X-rays. Wellness visit: $150. MRI on that gimpy shoulder: $1,000. Total out of pocket expenses: $1,350. Who keeps the rest? Your insurance company. You were "paid" $60,000, but only kept $51,350.

A day comes, though, when you have a heart attack, costing, say, $30,000. It is covered, and you say "thank God for insurance". But if you had worked there ten years, you actually paid in $100,000. You're still "out" $60-$70,000. All you did, in effect, was prepay for the heart attack, and if you actually stayed healthy, you would have lost nearly all that money.

But this prepayment causes all sorts of cost distortions. Because you never look at your bills, you don't care if the hospital charges $1 or $100 for an aspirin. And obviously, HOSPITALS KNOW THIS. Doctors know this. Insurance companies know this; and if you actually dig down, what you will find is that almost every insurance company has a different negotiated rate with healthcare providers. If you go in and ask: how much will this bloodwork cost me, they will ask you "what insurance do you have"? The answer depends on that. If it sounds enormously complex, it is, and you pay, sooner or later,

for all the extra office staff the doctor or hospital needs to sort through it, none of whom add ANYTHING to your actual health care.

If we paid cash for everything, hospitals would have to make sure that what they charged was WHAT THE MARKET WOULD BEAR. Their actual market, in almost all cases, is not patients, but insurance companies. And as our system exists currently, insurance companies don't care what things cost either, within broad ranges, provided they can pass that cost along to their consumers, which is large corporations, not individuals. This is the first source of cost distortions, which is to say why "healthcare costs are skyrocketing".

A second source is consumption patterns. If nothing "costs" anything, that you can see, you will tend to consume more healthcare. If there is a 1 in 100 chance that an MRI will yield useful information, and it "costs" you nothing, you get the MRI. If there is a 1 in 10 chance that a colonoscopy will yield useful information, you get the colonscopy.

Our country does a prodigious amount of testing compared to other countries, and most of it yields no useful information. They find no polyps. They find no lumps. They find no heart arrhythmias. But in point of fact MORE CARE IS GETTING DELIVERED. We have the ability to get anything tested at any time. Is it worth it, though? That is the question. CERTAINLY, if more tests are done, if more visits are scheduled, then costs go up. This alters consumption patterns, and thus drives overall healthcare costs up. Why? More is being done. But this causes more money to be spent overall, across the economy, than likely would have been spent had people been paying as they went, and gotten pricing for things up front. Maybe they get less tests done, but since most tests yield no useful information, this would only have a small impact on our overall health.

And who better to answer the question as to what is appropriate than the consumer, spending their own money?

There is in fact an alternative to prepaid care. It is what was called "Major Medical" thirty years ago, and what tends to be called "Catastrophic" insurance today.

As I said earlier, insurance companies deal in statistical models, demographic analyses, that given basic data points as to age, gender, Body Mass Index, smoking patterns, past health history, and the like, can generate very accurate predictions as to who will get sick to what extent, at what cost, over a given period of time. They don't know WHO will have a heart attack, but they can say that there is a rate of, say, 1 in 10 in a given demographic population over a five year period. They can use this information to

generate largely accurate predictions of future costs, and calibrate their rates accordingly.

They can then issue what I call true insurance policies, which protect against the unexpected, but not against the routine. You do not get your checkups paid for, for the simple reason that they assume that if you want it, you will get it, and if you don't, you won't. You pay cash for everything, up to a certain deductible, typically $2,500 and up. You take care of the routine out of your pocket, but if you get in a car crash—which is an eventuality they planned on for somebody in the group—you pay the first $2,500 (which you can easily save up from the savings on the premiums), and they pay the rest.

With an individual policy, you also do not have to worry about a lapse in coverage. They will of course not pay for preexisting conditions (I will deal with this when I get to an examination of Obamacare itself), but if you go six months without insurance, you just send them your information, pay your money, and they will issue you a policy. That is my understanding and experience.

I pay about $100 a month for my health insurance, and have a $5,000 deductible. Before I got smart, I had about $500 pulled out of my paycheck every month (and I saw this, so it made the financial analysis easier; as I said, most people never see what is paid, as it is done by Human Resources and paid directly to the insurers), for a policy which had if memory serves a $15 copay per visit. The rest was "free". But I did the math. I never get sick. I have never had a major illness. A doctor's visit is $100-$150. I go once a year. All the rest of that money was flat out wasted. And it goes on, year after year after year. When you finally do get sick, you have paid many times what you would have with a true insurance policy.

And to the point, somebody DID spend that money. The insurance companies are not actually pocketing the full difference between what your company paid, and what you consumed. If you are diabetic, or an epileptic, or have any number of other health problems, you may well use more than your allotted $10,000 annually. The costs of the sick are covered by the well. And such people, being insulated from the costs of their illnesses, are disincented from taking better care of their health. They figure there must be a pill for everything, and in large measure they are right. Our system is set up to incentivize any number of corporations, particularly medical device manufacturers and pharmaceutical companies, to figure out ways to tap into the INSURANCE market.

And, to repeat, the insurance market doesn't CARE, as long as they can pass the costs along. And since those cost are largely passed on to corporations who pay money their employees never see, nobody is the wiser. This is not poor ethics on their part: this is

simply an inevitable consequence of the fact that cost control is not built into our system, since the people consuming the care don't know what things cost. This, in turn, is largely caused by the fact that a very high percentage of individuals in this country are either not ALLOWED, by law, to circumvent this system; or are simply unaware of their options.

Put simply, the laws on the books of many States more or less force this situation into being.

This is compounded by the fact that all, or most all, of the States in this country have an Insurance Commissioner, or some body with a similar name, which grants licenses to insurance companies to sell within their borders. If you do not have a license, you cannot sell. As one would suspect, many insurance companies use campaign contributions and lobbying to create de facto protectionistic rackets, which are not quite monopolies, since more than one company will be allowed, but which creates conditions of what might be called "comfort" from competitive pressures. They create situations in which qualified carriers quite simply cannot sell within their borders.

The ostensible purpose is to make sure that all insurance companies have sufficient funds to pay out claims made on them, and that "excessive" competition will cause carriers to go bankrupt as they operate on tighter margins, but as far as I can tell, there is NO empirical data to back this up. In point of fact, if you require a set amount of reserves to be set aside for all carriers selling in that State, you eliminate this objection entirely. It is simply an excuse, nothing more, that cabals use to increase their profit margins, using the power of government.

We see the claim made that insurance companies often deny valid claims because they can, and thereby make more money. This is a staple of the "corporations are evil" theme that animates so much of the Left. Yet there is no evidence of this. Yes, there have been cases prosecuted by both State and Federal authorities as a result of fraud—which is what violating a contract is—but it is not a routine aspect of business. Think about it: in conditions of competition, how could any company stay in business which routinely failed to provide the product people were paying for? If you bought a dryer, and the company selling it refused to deliver it, you would sue, first, but secondly, you would tell everyone not to buy from them, and their business would decline.

Only in conditions of being insulated from competition as a result of State sanction could such a thing happen. Only government could enable this over the long term.

III

How Healthcare works

Healthcare in this country is a for-profit business, by and large. People bemoan this fact, thinking that something so important should be insulated from the profit motive. Yet, they ask the wrong question. The question they should be asking is: how can we maximize access to quality healthcare at the lowest cost? The way you get people to do things is by MAKING THEM WANT TO DO IT. As Dale Carnegie pointed out long ago, there is no other way. I repeat: there is no other way.

Why do doctors spend up to eight years working their tails off in medical school, and routinely graduate with hundreds of thousands of dollars of debt? Some combination of wanting to help people, and to get PAID for it. You will not get highly motivated, highly talented people to invest that kind of time and effort only to make what someone with a high school diploma can make. If you want quality, you have to pay for it. This is basic psychology.

The United States has a very large percentage of the world's specialists. We have no real advantage over, say, Japan or England, when it comes to General Practitioners. And for the vast bulk of people, that doesn't matter. Our abundance of specialists does not make them live longer. But the deeper you want to dig, into things like neurosurgery, or various forms of cancer, or innovative cardiology, the more and more special we get. We are the ones who invent new procedures. We are the ones who invent new drugs. Why is this? Because WE PAY FOR IT. We do not put caps on doctors income. We do not tell hospitals how much they can charge (outside of Medicare and Medicaid, which I will deal with in a bit).

Other countries do not do this. That is why the rich from other nations come here whenever they have anything that is not routine, that requires the best. We are the best. And we are the best because we incent people to WANT to be the best. This is not complicated.

According to one survey[3], 83% of doctors have considered leaving medicine as a result of Obamacare. If you click on that link, you will further see that *even if none of them quit*—and self evidently when the sentiment is that strong, many will—we still face a shortage of 20,000 doctors within less than ten years. Given that to become a doctor takes 4-8 after college, this is a hugely important number.

Remember our goal: to increase access to quality medical care at the lowest cost. Obviously, if we have a shrinking number of doctors and increased demand—demand facilitated by a government-related cost distortions, rather than insurance company-related distortions-- at a very minimum the "lines" to get access to a doctor will get longer, the time they can spend with us will shorten, and quality will suffer.

And why would doctors quit because of Obamacare? Simple: they expect to be asked to do more, for less. The reimbursements they get will go down, and thus the amount of work they need to do to maintain an income commensurate with the effort they expended to become doctors will go up, probably by a lot. This is a lose/lose situation, not just for them, but for the rest of us as well. And it is unnecessary.

To be clear, we can make them "want" to take care of people by requiring them by law to provide medical care. This is what Communist nations do. But is anyone so stupid as to think making someone do something by threat of coercive force can EVER equal the motivation won by simply allowing them to engineer a situation congenial to them? In one case you are pushing them in the direction you want; in the other they are RUNNING in the same direction, but because they WANT to.

I will tie all this together by telling a story of my most significant interaction with the medical establishment in my adult life. Roughly three years ago, I became aware I had an umbilical hernia, which is effectively a belly button "outy" that carries a small risk of serious health complications. I of course wanted to get it treated, but since I carry a high deductible I did not have the money. Had I kept my $500 a month policy, the money would have been there, but my business would have failed, since that cost at certain times would have been much more than I could afford. It was my decision. I had that freedom, and as a mature adult weighed the risks and benefits, and made what was a correct decision. Had I had a serious health problem, it would have cost me at most $5,000, since the rest would have been covered.

When I did have the money, I thought, I was utterly unable to get a quote. The surgery of course involved a surgeon, who gave me a quote, but also a hospital visit,

[3] http://dailycaller.com/2012/07/09/report-83-percent-of-doctors-have-considered-quitting-over-obamacare/

and an anesthesiologist, neither of whom would give me a quote. What they do is they do the work, then only afterwards figure out what your cost was. NO OTHER BUSINESS ON EARTH WORKS LIKE THIS. It is bass ackwards.

So, looking around, I found a guy in Las Vegas who charged a flat rate $5,000 for the surgery. Hernias and related surgeries are all he does. The price includes everything: hospital, his time, the anesthesiologist, nursing. He has a small office in a doctor building, and he even does his own exams. He's the one who draws blood, takes your blood pressure, etc. No nurse in his office.

Talking with him, he said he doesn't even take insurance. Dealing with insurance companies is very frustrating and time consuming. He would have to have several more office staff. He makes more money than he did, in less time. And because he does good work, I was fine with that. Do you want the cut-rate doctor who operates on slim margins? Well, that is what you get in many nations with socialized medicine. That is even what you get here, in many cases. I was comparing stories with two other people who had the same surgery locally, that was "paid" for by their insurance, and both had very bad experiences, with bad medical judgment, indifferent medical care, and poor outcomes. Mine was as smooth as it possibly could have been. I charged the $5,000 on a credit card, and will have it paid off in a year or two.

Why would we not want the most professional, motivated people, willingly providing services at prices tempered by competition? Why, in other words, would we not want cash reintroduced into the healthcare arena? As he said, 20 years ago most plans were what he called "Major Medical", which mainly involved cash for small stuff, and insurance billing only for big stuff. He had a very small office staff, and life was simple.

Lasik—the corrective surgery for myopia—is not covered by most health insurance plans. Prices for it have been going down for years, even as quality has gone up. The same thing would have happened across the board absent cost distortions interfering with the process of competition. To be perfectly clear: people are getting a good quality healthcare product, at a good price. This is the outcome we want.

Finally, I should mention that we spend, typically through Medicare, an enormous amount of money in the last year of life of many people. Given that we pay this money, we incentivize new procedures that are often expensive, and in many cases ineffective. According to this article[4], "In 2009, the top 10% of Medicare beneficiaries who received hospital care accounted for 64% of the program's hospital spending."

[4] http://online.wsj.com/article/SB10001424052702304441404577483050976766184.html

We all die. This is a given. The question is how much money a month of life is worth. If the government is paying for that healthcare, then logically and inescapably they will have to make decisions on this, as the British have. "Death Panels", whatever they are actually called, are an inescapable necessity in a system where costs are paid by anyone but the consumer, and even there the "death panel" will be the family.

There is no good solution to this, since we are dealing with the fact of our mortality, and merely negotiating a relatively sooner or later end. I have some ideas on this, which I will share presently, but will submit here that one essential objective will be to alter how we approach death.

IV

How Government works

I would like to quote Thomas Paine, in one of the best passages on government that I have read:

> Some writers have so confounded society with government, as to leave little or no distinction between them; whereas they are not only different, but have different origins. Society is produced by our wants, and government by our wickedness; the former promotes our happiness *positively* by uniting our affections, the latter *negatively* by restraining our vices. The one encourages intercourse; the other creates distinctions. The first is a patron, the last a punisher.
>
> Society in every state is a blessing, but government even in its best state is but a necessary evil; in its worst state an intolerable one; for when we suffer, or are exposed to the same miseries *by a government*, which we might expect in a country *without government*, our calamity is heightened by reflecting that we furnish the means by which we suffer. Government, like dress, is the badge of lost innocence; the palaces of kings are built on the bowers of lost paradise. For were the impulses of conscience clear, uniform, and irresistibly obeyed, man would need no other lawgiver; but that not being the case, he finds it necessary to surrender up a part of his property to furnish means for the protection of the rest; and this he is induced to do by the same prudence which in every other case advises him out of the two evils to choose the least. *Wherefore*, security being the true design and end of government, it unanswerably follows that

> whatever form thereof appears most likely to ensure it to us, with the least expense and greatest benefit, is preferable to all others.

Let me ask a question: can government be compassionate in the same way that a family or community can? Can salaried employees of a large bureaucracy interact with individuals with the same care, attention, and empathy as people who are in the immediate social circle as a given individual? Are they motivated to?

I would submit that the answer is OF COURSE NOT. In the best possible cases some exceptional individuals may come close to matching the care that a family or community can provide, but in aggregate governments do not build communities. Nor is that properly their role.

When it comes to healthcare, we see argument made often that we need to care for the sick and weak, if they otherwise have no access to help. I do not dispute this. What I dispute is that a large national bureaucracy can create a one size fits all model that optimizes care while controlling costs. I would submit that the proper focal point of all social programs would be the States. There is nothing in our Constitution that permits the Federal Government to enter this realm, even though corrupted Supreme Court Justices have allowed it, albeit not uniformly. Here is this basic idea expressed well by Justice McReynolds in the FDR era:

> I cannot find any authority in the Constitution for making the Federal Government the great almoner of public charity throughout the United States. . . Can it be controverted that the great mass of the business of Government--that involved in social relations, the internal arrangements of the body politic, the mental and moral culture of men, the development of local resources of wealth, the punishment of crimes in general, the preservation of order, the relief of the needy or otherwise unfortunate members of society--did in practice remain with the States; that none of these objects of local concern are by the Constitution expressly or impliedly prohibited to the States, and that none of them are by any express language of the Constitution transferred to the United States? Can it be claimed that any of these functions of local administration and legislation are vested in the Federal Government by any implication? I have never found anything in the Constitution which is susceptible of such a construction. No one of the enumerated powers touches the subject, or has even a remote analogy to it.

I agree fully with this sentiment, and view a renewed commitment to our actual Constitution as written as essential to our continued success as a nation.

Leaving aside philosophical issues, though, let us focus on practical issues. The goal, again, is increasing access to quality healthcare at lower prices. Remember this, and never forget it. The goal is increased access for all Americans, rich and poor alike. The goal is achieved if we move in this direction, and if we move in the opposite direction, Obamacare is worse than having done nothing.

The question here is: is government likely to do this? Will we increase the number and quality of doctors and hospitals providing care and lower overall costs as a result of the direct intervention of the Federal government in our healthcare system?

In assessing this question, we must revisit the notion that people tend to do what they want to do, and not to do what they don't want to do. They pursue their own interests to the extent possible, absent checks and balances of various sorts. What, we might properly ask, is the motivational structure of government?

Before I answer that, let me review the motivational structure of the private sector. The goal in the private sector is to maximize profits. The means is to provide a superior package of price, quality and service relative to competitors. The need for greed is counterbalanced by the fact of competition. If you have five other companies selling the same product, you have price pressure on you, such that if you want to charge more, you have to provide a superior value over the long haul. You can trick people, but that strategy is not viable over a long time horizon when you have many people eager to point your tricks out to your potential clients.

Our experience over the last few centuries is unambiguous that innovation and quality are the inevitable result of competition. The simple fact is that in an agonistic world, the defective and dishonest and uncreative simply fail. Businesses go bankrupt, if they go long enough without providing a product or service that people want at a price they are willing to pay. The principle, perhaps only, exception to this is when market forces are artificially reduced or eliminated through government intervention.

Businesses can fail. Government cannot, as long as tax dollars are allocated to it. There are no external pressures on government agencies to perform. They can lose money for decades on whatever service they are providing, and not be the worse for it. The only pressure on them is legislative and executive pressure brought to bear through the electorate by means of elections.

Government agencies can continue to exist, in other words, providing NO product or service that the people want, at prices they chose to pay. The People get no votes.

And historically, government has expanded year on year since FDR's reign, with no end or even slowing down in sight[5]. Federal expenditures in 2000 were $2 trillion. Federal expenditures in 2012 are projected to be $3 trillion, a 50% increase in a little over a decade.

I will detail all the various ways in which Obamacare expands both spending and taxation, but the core point here is that there is no self limiting element to government, and no incentive to innovate or even provide good service, that is not tied to the government itself. It answers to no one directly, but itself; whereas private companies get "voted" on daily by consumers.

V

Obamacare

I am going to go through every provision of this law, and explain the likely—I would argue certain—effects they will cause. Before I do so, though, I would like to put forth as a useful heuristic the distinction Austrian economist (and Nobel Prize Winner) Friedrich Hayek made between "Acting For", and Acting To". This distinction is FUNDAMENTAL in understanding the difference between Leftism and actual Liberalism. It is the reason that moral people who possess empathy and compassion, who care deeply about their fellow suffering human beings, will invariably be drawn into positions which seek to maximize individual empowerment, and minimize government intrusion.

Acting For is what you are trying to achieve. It is the rhetorical intent. It is the anchor for the sundry emotions that flow from the seeming "compassion" being expressed in laws like Obamacare, and it is the source of emotional identification with political positions and policies.

It does not, however, bear any necessary connection AT ALL with actual outcomes. You can Act For something, and achieve the polar opposite. As one obvious example, Detroit was the first place they tried "urban renewal". It was a focal point in the War on Poverty. It was a booming, successful city until the 1960's. It was our industrial heartland, and arguably one of the most successful cities in America. Motor City, it was called. Now, Detroit's own cops are saying publicly that they have lost control, and can no more guarantee anyone's safety than if they were entering an actual war zone.

[5] With the sole exception of Clinton in the 1990's, in tandem with a Republican Congress. To his credit, he reformed "Welfare" (which is a number of programs), and of course benefited from the end of the Cold War.

How and why this happened is beyond the subject of this treatise, but I simply want to point to the fact that the GOAL was increased well being for everyone, and the RESULT was complete disaster and social disintegration. If you had attached yourself emotionally to that goal, and remained satisfied that you "did your best" in spite of subsequent events, you would be a liar. It is that simple. You would have seen a clear trend over decades, and chosen to ignore all policies which might have counteracted that trend, because they did not fit your model of the world.

Acting To is what is actually achieved. The policies pursued, as evidenced by reality, Acted To increase poverty, crime, urban decay and all the other ills currently sitting like brown smog on that unfortunate city.

On to Obamacare. I will be using the Wikipedia summary[6] for convenience. I assume Obama partisans have done their best to describe it accurately, but if I am wrong in any specifics, the broad outline will still hold up.

Guaranteed Issue: this prohibits insurance companies from denying coverage based upon preexisting conditions.

Effectively, this will obviously only apply to people who for whatever reason let their insurance lapse, then got some serious illness.

What is important to understand here is that this shifts the focus of insurance from using demographic models to predict illnesses across populations, to what in effect amounts to charity. When someone is already sick, almost by definition they will cost much more than what they pay in in premiums, since they have not paid anything in prior to asking for insurance, and since they will immediately begin drawing out. It is like telling car dealers they have to fix every car anyone brings to them, no matter how much it costs, for the same price they charge for a tune-up and oil change. It creates an immediate and substantial increase in costs.

All businesses depend on profit to survive. Profit is the difference between costs and revenue. If your costs go up, you have to increase revenues to survive. Guaranteed Issue increases costs, therefore it will NECESSARILY cause an increase in the premiums paid by EVERYONE. The insured, in other words, are being made to pay the costs of the uninsured, by government fiat. Effectively this is a tax on consumers, and since most people are middle class, that is where the bulk of the burden will inevitably land. This is not greed on the part of insurance companies, and is an ineluctable outcome of this law.

[6] http://en.wikipedia.org/wiki/Patient_Protection_and_Affordable_Care_Act

If the goal is to decrease health insurance costs, this law will fail, inevitably and unavoidably, for everyone but those who were uninsured, and got sick. The extent of that failure remains to be seen, but for every person it helps, it will likely hurt 5-10.

Medical Loss Ratio (aka Profit limitation provision):

The argument is made that since all people will have to be insured, insurance company profits will go up, which is somewhat true, but the reality is that insurance companies are being required to contain all operating expenses and profit within 20% (small companies) or 15% (larger companies) of their revenue. There are about 311 million Americans, and about 48 million without insurance. As we will see, many of those 48 million will either go on Medicaid or Medicare, so if we posit that only two thirds will buy new insurance from an insurer, that only expands the base about 10%, which is not much of a revenue increase, and all of which comes with a host of new costs I will be detailing presently.

To be clear, let me do the math. Let's say your costs are $1,600 and your revenues are $2,000. Your profit is $400. You get to keep that, as profit and to pay operating costs. Let's say your costs go up to $2,000. You HAVE to increase your revenue through rate increases.

Most insurance companies are already operating at roughly 5% net profit (in good years: and this is something you can readily verify by reading annual reports), so given roughly 10% overhead they are already roughly at that 80% or 85% mark (larger companies can make more accurate demographic assumptions, and thus operate at lower overall margins). It is thus virtually inevitable that they will be forced into large rate increases as these provisions take effect. They are made inelastic by law. They can't make a bunch of money one year, and put it in the bank to tide them over in bad years.

One sees often on the part of "liberals" an antagonism towards insurance companies, and many of them are openly rooting for mass business failures in the insurance sector. I would like to say a few words on this.

First off, as I have shown, the taxes paid by private for-profit corporations, and the employees they hire, constitute ALL the actual revenue of the American government. All decreases in business well-being thus constitute tax losses, a condition which is exacerbated if those jobs are then transferred to the public sector, as many envision with a Single Payer system.

Let me deal briefly with Single Payer, since it is the stated end goal of most of the people behind Obamacare. In Single Payer, effectively, the government is the insurance company and the healthcare system. They collect taxes from everyone, then use it to disburse care.

In the private sector, quality of service, and cost containment are INTRINSIC elements of the competitive process. They cannot be avoided except through government sponsored monopolies. You have to provide a product or service people want at a price they are willing to pay. There is NO OTHER WAY to survive.

The same is not true in the public sector, again as I have shown. You can be forced to "buy" products which are inferior, service which is inferior, and you cannot protest except through voting. You have no options.

As an example, take the British National Health Service. Procedures which are scheduled and completed in the United States in a matter of weeks take months, even years there. As one example, the average waiting time in the United States for a hip replacement surgery is 3-4 weeks. In Britain it is 11 months. And here you get to choose your doctor and hospital. You have control. There, you are assigned a doctor and a hospital, possibly within a very narrow band of options.

In Britain, if can't get drugs you need and decide to buy them yourself, you are BANNED from participation for life in the system. You are booted out. You can read about other terrible aspects of their system here[7].

The British government is providing a service which people need, but one which they cannot opt out of. They cannot vote with their money. There is no competitor to the National Health Service. There is no incentive to innovate. There is no incentive to provide good service. There are no cost containment mechanism other than the black pens of administrators, who often use them to deny cancer treatments, end of life care, and expensive, cutting edge medical solutions. Less care, in other words, is delivered than would be otherwise in a free market system. Less attention is paid to patients.

The British, of course, love their system. They think healthcare is "free". I actually heard a woman from Ulster put it that way. She said that waiting times might be long, and quality of care not the best, but it was free.

Nothing in life is free, not if someone has to be incented to provide it on a sustained basis. You don't work for free, do you? Government bureaucrats don't work for free. On the contrary, in the United States they are much better paid[8] than most of us.

[7] http://www.nationalreview.com/critical-condition/231045/why-americans-dislike-britain-s-nhs/avik-roy

A Single Payer system is not free. It is paid for by taxes.

The argument is made, though, that since there is no profit motive, surely it must be cheaper. This argument ignores the fact that cost containment is intrinsic in a free market, as a result of competition (competition which is currently limited in this country through government interference). In the public sector, it is a matter of individual judgement, of internal self regulation. This means that there is no barrier but public outrage to massive expansions in size, salaries and power.

In free markets, products and services are constantly changing as a result of competitive pressures. People are constantly searching for the best and cheapest. In a non-free market, which is what a government monopoly is, there is no searching possible.

And PRACTICALLY what happens in Single Payer systems is a combination of cost containment through rationing—of which waiting 11 months for a needed surgery is but one example of many—and through cost CONCEALMENT. The money needed to fund the system is BORROWED, thus avoiding an immediate need for tax increases to fund the system. But that borrowed money does not go away. The taxpayers have to pay it back, with interest. They have to pay MORE, over the long haul, if they do not default outright, as Greece and Spain likely will one day soon.

It is always better and more prudent to pay your bills as you go. This is common sense, one which saw ample representation in Aesop's Fables written thousands of years ago. You cannot borrow your way to prosperity, and you cannot borrow indefinitely and avoid disaster.

All you can do is create an ILLUSION of prosperity in the process of maxing out your credit card. And unscrupulous politicians in droves are only too eager to help you do it, since they get to ride the gravy train by promising free stuff to everyone. The danger of this is well summarized in this quote, author unknown (per Wikiquotes[9]):

> A democracy is always temporary in nature; it simply cannot exist as a permanent form of government. A democracy will continue to exist up until the time that voters discover that they can vote themselves generous gifts from the public treasury. From that moment on, the majority always votes for the candidates who promise the most benefits from the public treasury, with the result that every democracy will finally collapse due to loose fiscal policy, which

[8] http://www.cbo.gov/publication/42921
[9] http://en.wikiquote.org/wiki/Alexander_Fraser_Tytler

is always followed by a dictatorship. The average age of the world's greatest civilizations from the beginning of history has been about 200 years.

There was a gas station in North Corbin, Kentucky, which served world class fried chicken in the 1930's ONLY because of the profit motive. There was no other reason. None of us work for free, nor should we expect anyone else to work for free. You can make people work with a whip and a gun, but that does not lead anywhere good.

The task, as I keep repeating, is how to ensure the BEST for the LEAST. Only free markets reliably do this, which means that any subversion of free markets can be expected to sabotage both quality and efficiency, as has indeed happened around the world. As I said earlier, why do we have the best experts and invent the most new procedures? Because we PAY for them.

Individual Mandate: This requires everyone to be insured. There will be two mechanisms for this. The first is coercing companies who have more than 50 full time employees which do not currently offer health insurance to begin offering it, or pay a substantial fine.

Consider the place this puts fast food franchises, and other small businesses which provide a lot of jobs as a result of running simple businesses that do not require much qualification, and whose business model therefore depends on a low cost labor force. They only have three choices: charge significantly more for their food (product or service), which will drive up costs to consumers, and likely decrease their overall revenues; decrease the number of full time employees through layoffs and reductions in hours so as to get under 50; or see their profits cut in half, which is what the International Franchise Association concluded[10] was the most likely outcome.

What are we trying to achieve? Better health for Americans. What are we NOT trying to do? Force mass layoffs and bankruptcies in the private sector. Yet one way or another, costs will go up for everyone. Some combination of an increase in unemployment and cost increases for food is inevitable. Yes, the insurance companies will see increases in revenues, but as I have already shown, they cannot by law absorb increased profits.

Who wins? Politicians who buy votes with other people's money, the irresponsible, and the unlucky. The rest of us lose. Framed another way, the people who provide needed services and products at prices people are willing to pay will suffer, with the necessary

[10] http://washingtonexaminer.com/franchisors-warn-obamacare-will-halve-profits/article/2507920

consequence that our access to those products and services will diminish, or increase in cost.

State exchanges: Obamacare requires all States to set up what amount to websites for people to buy insurance directly. Effectively, existing State Insurance Commissions will see their power expanded to directly control the list of "eligible" carriers, and will manage how that carrier markets directly to individuals. Obviously, this will continue to limit competition by limiting the number of companies allowed to sell insurance in an artificial, non-free market way.

These exchanges will allow individuals to buy insurance directly, which is good, but they are also intended to facilitate an increase in the Welfare State by providing for subsidies to be paid for people whose household income is up to 400% of the Federal definition of poverty.

As an example, a family of 4 with a household income of $88,200 cannot by law pay more than $8,379 for their insurance. Whatever the difference between actual premiums and that amount will be paid for by, of course, the taxpayers, presumably via money borrowed from China (until they stop lending to us, of course.) <u>This is a huge increase in government spending. There is no other way to see it.</u>

Medicaid Expansion: Obamacare expands Medicaid eligibility to 133% percent of the poverty line. Medicaid, as you hopefully know, was our socialized medicine, and has been with us since LBJ's Great Society initiative.

What Obama and the Democrats have done is simply increase spending. There is no other way to look at it. None of the people getting this free (to them) healthcare will pay anything close to the benefits they receive.

Obamacare was sold to us as a cost containment mechanism. This expansion flatly contradicts that farcical lie. One can argue about the merits of this charity, but one cannot dispute that cost increases—LARGE cost increases—are inevitable.

And in point of fact, Medicaid was broke in 2009 when Obama took office. Not many realized this, but in 2009 46 out of 50 States were paying out[11] more in Medicaid than they were taking in. $93 billion of Obama's economic "stimulus" went to bail out[12] bankrupt State Medicaid programs.

[11] http://www.npr.org/templates/story/story.php?storyId=100093453
[12] http://www.recovery.gov/Transparency/fundingoverview/Pages/entitlements-details.aspx#MedicaidMedicare

And now we are expanding it, when we have been borrowing money to pay for EXISTING programs. The only ways this can happen are through massive tax increases on the private sector and—more likely—even larger scale borrowing than we have already been doing. There are no other options. If the government could directly devalue our currency by printing the money to pay for it, it likely would, but the Fed makes its own policy and answers to no one.[13]

Medicare: Obamacare will change how Medicare payments are disbursed. Before I discuss that, though, let me cover Medicare as a whole first.

Cost containment of Medicare was supposedly an important element of this legislation. Whenever you saw the need to address "skyrocketing healthcare costs", the subtext was the fact that the Federal government has largely assumed responsibility for the healthcare of the demographically most ill part of our population. Old people get sick more because they are old. That should be clear enough.

As you should know, the Baby Boomers are getting on the Medicare rolls at an accelerating rate, something on the order of 8-10,000 people a DAY. None of these people paid into the system more than a fraction of what they will wind up taking out. Like Social Security, Medicare is an intergenerational wealth transfer system, that could possibly work given an even demographic line. We are not fortunate enough to have an even line. The number of people paying in to the system is not remotely large enough to support the number of people taking out of the system.

One sees differing estimates, but most people who study this issue agree that if we measure our national debt using standard accounting practices, we are currently going into debt not $1 trillion a year, but $4-5 trillion. The way this works is this: if we are honest, we set aside money for every person for whom we assume responsible; that money is not being set aside; and tax rates cannot be raised enough to cover the people we are committing to cover, using current levels of care.

To be clear, if a company in the private sector commits to providing a pension, they have a pension fund. They have money set aside to pay the bills, which is not that different in principle from the reserves insurance companies keep to pay claims. They know about how long people will live, and can budget that money.

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[13] My treatment of our financial system is here: http://www.goodnessmovement.com/Page23.html In the long run, we MUST reform our financial system. Everything I am discussing here is simply trying not to go bankrupt in the short run. If we fix our financial system, in my view we can eliminate poverty, unemployment, and problems with access to healthcare. These ideas are original, in my view powerful, and will be needed sooner rather than later.

The opposite of this is paying out of current revenues. Since businesses ebb and flow in their revenues, this is precarious, and quite likely illegal in many places.

According to USA Today, which is such a partisan (Democrat) newspaper that I don't normally read it even when it is free,

> The typical American household would have paid nearly all of its income in taxes last year [article[14] was written in 2012] to balance the budget if the government used standard accounting rules to compute the deficit, a USA TODAY analysis finds.
>
> Under those accounting practices, the government ran red ink last year equal to $42,054 per household — nearly four times the official number reported under unique rules set by Congress.
>
> A U.S. household's median income is $49,445, the Census reports.
>
> The big difference between the official deficit and standard accounting: Congress exempts itself from including the cost of promised retirement benefits. Yet companies, states and local governments must include retirement commitments in financial statements, as required by federal law and private boards that set accounting rules.
>
> The deficit was $5 trillion last year under those rules. The official number was $1.3 trillion. Liabilities for Social Security, Medicare and other retirement programs rose by $3.7 trillion in 2011, according to government actuaries, but the amount was not registered on the government's books.

If you self define as a liberal, and don't understand why conservatives who read are so worried, you have a big part of it right there. We did not BORROW $5 trillion last year, but we WILL, because we can't tax enough to cover those gaps. As they said, if we had tried to cover the gap last year, it would have taken up nearly 100% of the money made in America, and we are just at the BEGINNING of this flood, which will continue to get worse for the next 5-10 years before evening out some time in the 2020's.

Huge problem, but nobody wants to talk about it. I will at the end of this paper, though.

Back to Obamacare. What they have proposed is changing how they pay hospitals and doctors. They want to move from a Fee for Service model to a lump sum model. Now, what they get is an itemized inventory of what was done, that includes what doctors were involved, how long the hospital stay was, what drugs were administered, etc. Under the new system procedures—say a hip replacement—will all be paid a fixed amount.

[14] http://usatoday30.usatoday.com/news/washington/story/2012-05-18/federal-deficit-accounting/55179748/1

I think the logic is that this method will incent hospitals to be more efficient. What amounts to a committee will be set up as well as part of Obamacare, to study how to be more efficient. This seems to me to clearly be window dressing. Nothing incents excellence and innovation and quality like money, and this method can only do one of three things: it will increase costs, leave them the same, or lower them.

If it lowers them, which is the only option that is consistent with the purported goal, it can only do so by reducing the amount of care given. There is no reason to assume that hospitals, now, are flush with cash and simply wasting money. They are for-profit businesses, who do have to compete with one another. You have almost certainly seen many ads on TV and billboards for this hospital or the other. What you are seeing is creating efficiency already.

And to the point, they are already complaining[15] about Medicare underpayments. From that article:

> "Physicians are saying, 'I can't afford to keep losing money,'" said the president of the group conducting the latter survey. Medicare paid doctors about 78% less than private insurers did in 2008.

There are no conceivable alterations to the system that could double efficiency, which is roughly what is needed. Think about it: how could you get TWICE as much work done now as you do, assuming you have a decent work ethic already?

They also had this idea of paying less to hospitals who treat patients who are readmitted within thirty days. Basically, what they are doing is demanding vast cost cuts and increases in quality. Historically, not a great combination, or a realistic one.

Finally, I should mention the Medicare Advantage aspect of this. Part of how Obamacare will supposedly be paid for is huge cuts in this program, something on the order of $800 billion over the next decade or so [I will add that when you see the term "cuts" and a cost, it is never clear what timeframe they are using, but you can reliably infer it is not an ANNUAL number].

Regular Medicare uses government administrators. Medicare Advantage uses private insurers, who are paid the Medicare "premium" that would have been paid for the individual, and who can increase coverage for additional money.

In effect, Medicare Advantage gives consumers an ALTERNATIVE to normal Medicare, one which they can better tailor to their needs, even if it costs a bit more. It has proven very popular, and now includes roughly 25% of Medicare recipients. This alternative will likely disappear or become prohibitively expensive under Obamacare.

[15] http://www.newser.com/story/93278/more-doctors-turning-away-medicare-patients.html

The cuts have already taken place, but Obama, in what I will candidly admit I view as a typically deceptive fashion, has TEMPORARILY suspended the cuts through a bureaucratic ruse, until AFTER THE ELECTION.

Lifetime, annual and deductible limits; waiver of copayments; contraception mandate: Obamacare prohibits lifetime and annual limits on payments, and requires annual deductibles to be no higher than $2,000 for employer sponsored plans. It requires insurance companies to pay for many services at no additional charge. They have a list of covered services, which include what they are now calling "wellness" visits, and what we used to call the "annual checkup" when I was growing up.

I will just quote Wikipedia here:

> All new insurance plans must cover preventive care and medical screenings[63] rated Level A or B by the U.S. Preventive Services Task Force.[64] Insurers are prohibited from charging co-payments, co-insurance, or deductibles for these services.
>
> All new insurance plans must cover childhood immunizations and adult vaccinations recommended by the Advisory Committee on Immunization Practices (ACIP) without charging co-payments, co-insurance, or deductibles when provided by an in-network provider.
>
> All new plans must cover certain preventive services such as mammograms and colonoscopies without charging a deductible, co-pay or coinsurance. Women's Preventive Services – including: well-woman visits; gestational diabetes screening; human papillomavirus (HPV) DNA testing for women age 30 and older; sexually transmitted infection counseling; human immunodeficiency virus (HIV) screening and counseling; FDA-approved contraceptive methods and contraceptive counseling; breastfeeding support, supplies and counseling; and domestic violence screening and counseling - will be covered without cost sharing.

[I will note parenthetically that this includes the so-called contraception mandate, which requires ALL providers to provide "free" contraception, and likely abortion (a committee will establish guidelines), regardless of religious convictions. Enforcement was suspended for one year, to get Obama through the election, but will take effect next year.]

All of these provisions will be in place by 2014. Ponder for a moment where I am going with this. Is it not obvious? What are these? They are added COSTS. There is no other way to look at it. Do they need to be paid for? Of course, IF you want qualified people to continue delivering these services. So who pays for it? You do, of course.

We've gone through the math several times, but it's worth doing it again. What all this represents is used car lot math. They can "give" you $1000 for your old car, IF they add $1,000 to the cost of the new car you are buying. They get away with it, often, because people are stupid and greedy. That is not opinion: that is an often observed fact.

Here, what they are trying to do is offer you "free" stuff. You know it's free because you didn't pay anything at the station when you were checking out.

How, though, do insurance companies pay for it? They add it to your premiums. ALL OF THIS will cause increases in insurance premiums.

In my considered view, many of these provisions, as well as the Exchanges, are intended both to support the bankruptcy of insurance companies, and the gradual take-over of our entire health sector—insurance and health provision—by the Federal government. Think about it: you are already buying your insurance on a State-run website. The insurance companies are in the background. They are not marketing directly to you. Given what will no doubt be called "regrettable" business failures on the part of private insurers, and the fact that the government will ALREADY be subsidizing people with household incomes up to almost $90,000, all you have to do is change the back office, and PRESTO, you have single payer. In my view, there is no other credible way to look at this.

With respect to lifetime and annual limits, what does this do? It screws up the actuaries. It becomes much harder to do cost containment. <u>You can't turn people down who are already sick and who paid you nothing, and there is NO LIMIT on how much they can cost.</u> Further, you cannot set this money aside, since by law you can only keep 15% of the revenue you take in.

All cost caps do is enable insurance companies to more accurately predict actual expenses, and in point of fact those willing to pay more for insurance can ALREADY have such caps eliminated. The reality, though, is this is not a problem for most people. In my view, this is a targeted attack on "evil" insurance companies.

And I will add, Medicare does not cover everything no matter what. They have limits on what they pay. They have "lifetime limits", albeit perhaps not ones fixed in stone. They have review committees, committees which will become less willing to spend money as they increasingly drown in red ink. You have to have limits, or a small number of people will suck you dry.

"Death panels" are necessary. Every nation with socialized medicine has them. To argue otherwise is to say that you are willing in principle to pay a million dollars to keep someone alive five more minutes. Everyone dies. This fact cannot be avoided, and any

entity for making decisions on how much added time is worth is going to have to come up with a formula, as, again, all nations with socialized medicine have already done.

Taxes: Of course Obamacare has many taxes, some silly, some not so silly. Silly is a 10% tax on tanning booths. Not so silly is the $14 billion (estimated) annual tax increase on insurance companies. I cannot find good numbers on annual profits for the health insurance sector as a whole, but let's do some rough approximating.

According to this link[16], United Healthcare has 11.7% of the market. They made $4.6 billion net profit in 2010. If $4.6 billion represents 11.7% of the total profits made by the industry as a whole (frankly a dubious proposition, since that was a good year for United, so this will certainly err on the high side both because many companies likely did not do as well, and because as I have shown most companies will be under STRONG business pressure by 2014). 11.7/100 equals 4.6 billion/X. That is about $39 billion. Assuming these earnings factored in taxes already paid, this INCREASE in taxes over and above what they are already paying will have to come from that $39 billion. $14 billion is 36% percent of $39 billion.

And these taxes will be paid disproportionately by large insurance companies, who by law will have to spend 85% of every dollar taken in on healthcare. Any tax increase that large will do bad things to quality. Jobs will be lost, performance will decline, and as I have said repeatedly, may disappear entirely through bankruptcy. Thus even as the NEED for taxes is increasing, the people paying it will be declining. It is a double catastrophe.

Then Obamacare does strange things, like reducing how much money you can set aside in Health Saving Accounts tax free. One would think they would want to incentivize savings, which has been considered prudent more or less since we emerged from the jungles of Africa.

At the risk of being repetitive, when you analyze this law, no conclusion is possible, in my view, but that it is calculated to ruin what would otherwise be a robust health insurance industry generating a lot of tax revenue, all in the service of a government whose fees cannot then paid by taxes. When you read that, you need to hear that MISERY will be the result. <u>We are looking not just at the failure of the insurance industry, but of the American government</u>.

Calorie counts: This falls squarely in the stupid category. All chain restaurants with more than 20 locations, and at some point presumably all restaurants, will have to have to post calorie counts on the DRIVE THROUGH, menus, and on VENDING machines. All this information is already available if you want it. The next time you go to McDonald's, look on the wall: every item is listed, with every metric you could want. That package

[16] http://www.freedombenefits.net/affordable-health-insurance-articles/Largest-125-US-Health-Insurance-Companies.html

of M&M's has calorie information. Has this affected anyone's consumption pattern? Of course not. This is just more interference by people who claim to be well meaning, but who mainly just enjoy the exercise of power. If you can't buy a 64 oz soda, does that mean you can't buy two 32 oz soda if you want? Of course not. This rule will have ZERO effect on the health of Americans, but will add costs to restaurants already under economic pressure because of this law.

Educational loans: This was a very sneaky part of the law, one which Wikipedia fails to mention. Since the mid-60's, the American government has guaranteed loans to students made by private banks, who make the loans ONLY because they know they will get their money, and who make the loans in the expectation of profit.

In effect, the government pays the private loan-originators when students default, in what some treatments I read call "subsidies". By law, you cannot erase these loans in any way other than by paying them. Chapter 7 bankruptcy, for example, cannot erase student loans. The students can, however, simply stop paying them. Since educational costs are extremely high, and since well paying jobs await only people who increase their economic value substantially through that education (doctors, lawyers, engineers, physicists chemists, etc.), many students are left saddled with substantial debt, and no reasonable means of paying it off. In many cases they are literally worse off as a result of having attended college.

What Obamacare does is take the private sector out of the loan business entirely, and puts it under the Department of Education. This will force closed the doors of those businesses who depend heavily on this business, albeit over a relatively long time horizon of a decade or so, since they have an existing base of loans. Again: government intervention increasing private sector unemployment, with corresponding declines in tax revenues.

Those losses will presumably be offset by increases in Federal employees, but as I have shown repeatedly, the cost control mechanisms that are integral to the private sector are entirely absent in the public sector.

And what does this have to do with health insurance or healthcare, you might reasonably ask. The answer is NOTHING. Not a thing. Why is it in there? Well, one, the direct control of the educational system has always been an objective of socialists like Obama. He no doubt wants to be able at some point to offer "free" education to the masses, like they have in Germany.

The argument made, however, is that the government can run this business profitably, such that rather than the private sector earning the interest on those loans, the government will. This money is factored into the tortured balance sheets that make Obamacare budget neutral on paper printed by Democrat partisans. The reality, of

course, is that cost overruns are nearly inevitable, and in point of fact, one more segment of our economy will have been brought under direct government control.

I will add that since it is a HUGE problem, and rarely dealt with responsibly in the public sphere, from what I can tell, I should comment on education costs as well. Why are they so high? Why have they been rising far faster than the pace of inflation for decades? Is more value being delivered?

Of course not. What has happened is that the abundance of credit available in our economy has been abused by college and University Administrators to enlarge their kingdoms, by paying more to educators, to themselves, to build new buildings, and overall to increase their size and overhead. It has not resulted in ANY measurable increase in quality. We are not graduating smarter kids.

Effectively, education is a "buy now, pay later" proposition offered to gullible kids who were never educated to be financially intelligent, and who only realize when it is too late the terrible mistake they have made.

I will offer a solution to this as well.

VI

What to do?

This will be the shortest and easiest section. What is the core problem? Government induced distortions in rational economic behavior. The solution, then, obviously, is to eradicate those distortions.

First, stop ALL Obamacare provisions from taking effect, immediately. All of them, including the Individual Mandate. This needs to be a complete redo.

Put the Commerce Clause to its proper use and require all States to allow all carriers to sell whatever they want in every State, directly to individuals. Since it will be a popular product, this will unquestionably include Catastrophic policies with high deductibles.

Eradicate all caps on tax exempt contributions to Health Savings accounts, to incent saving.

Eliminate laws putting ANY age cap on insurance. I see no reason 40 year olds could not be on their parents insurance.

Fold anyone who has a preexisting condition into Medicare or Medicaid. One way or another, we were going to assume responsibility for their care anyway, and this eliminates the "humanitarian" (most leftists are not actual humanitarians) objection.

Make insurance premiums paid by individuals tax exempt, just as they are with employer sponsored plans, provided there are no lapses in coverage. This will do three things. First, it will incent people to get and keep insurance. Second, if they get and keep insurance, they will always be covered, and thus by definition cannot ever have coverage denied by a "preexisting condition". Third, it will put more money in people's pockets, who can then use it in any way they see fit.

Leave Medicaid the way it is, and use economic growth both to make it solvent, and to decrease the number of people who are poor.

Medicare is a tougher cookie. The first obvious option is to increase the age of eligibility. The second may unfortunately be a tax increase. Republicans tend to oppose tax increases not because they favor insolvency, but for the simple reason that historically tax increases have been used to fund more spending, permanently. If we begin the necessary process of cutting the size of government, though, tax increases will do the trick.

Third, we can begin to offer alternatives. An expansion of Medicare Advantage is one obvious possibility. Another is allowing people to opt out of Medicare entirely. As I understand it, Bill Clinton got a law passed when he still had Congress that requires you to accept Medicare if you want to get Social Security[17]. If you don't accept Medicare, you lose your Social Security benefits. There are people we are paying benefits to who don't want them.

Over a longer period, and once we get government coercion removed from the equation, private insurers can begin to offer what I will call "Old Age" benefits for convenience. As I have said repeatedly, insurers have demographic models that are very accurate. Currently, they don't plan on insuring you past 65, but why not? You could enter, say, a twenty year contract in which you pay higher premiums, in exchange for guaranteed coverage for the rest of your life. That would work well, in my view. It would increase freedom, increase choice, increase quality, and SAVE us a lot of money.

In the near term, we have a LOT of people to cover. Rationing is inevitable. And obviously the Left must be OK with rationing, since they want to extend it to all of us. Raising the age of eligibility is a type of rationing, but we will need to make harder decisions. Death Panels have to be a part of this process. It is unfortunate, but we have to face facts, not pleasant illusions. Some people who consume enormous

[17] I deal with Social Security here: http://www.goodnessmovement.com/Page11.html I need to update it, but it still has the salient arguments I would want to make.

amounts of resources have to be cut off. We all end up in the ground anyway. That may sound harsh, but the British and others have been using this logic for some time. In Britain they apparently "call" a lot of patients early just to save money.

And to be clear, the situation was created by allowing the government to take over in the first place. Get them out, and things will improve gradually.

With respect to individual private insurance, you would have to agree, contractually, to how much you are willing to pay for them to guarantee certain types of treatments. You yourself decide how much your life is worth.

For the poor these programs will continue to offer a basic safety net, but over the long haul, the goal is to get rid of the poor by making them middle class. This is done through economic growth, which is a topic that take me beyond this paper.

I do feel strongly, though, that all Federal support for Medicaid should be ended. This process can be gradual, but it needs to be steady. The Federal Government does not have any money it does not collect from taxpayers, other than its ability to borrow. What it does is take money from States, then give it back to them, after deducting its own bureaucratic overhead to cover the costs of program administrators. To the extent the numbers are equal, it is superfluous, and to the extent they are not, it is a redistributive system from States which manage things well, to States which do not. As one example, a LOT of money is going to California, because its Medicaid roles have ballooned due to its Medicaid policies. If they want to provide more care, they need to figure out how to pay for it. Such redistribution is unjust, and in any event not properly an activity the Federal government should be facilitating.

Finally, education. Eliminate all Federal student loans that are not originated by the private sector, and create no special conditions for them. Allow them to be extinguished in bankruptcy. Universities will IMMEDIATELY have to get their costs in line. They will IMMEDIATELY have to demonstrate a value proposition that makes economic sense. We will see mass layoffs, which I admit is not a good thing, but the alternative is a continuation of spiraling costs, frequent mediocrity, and broke kids with college degrees.

I will add, that I have room in my heart for State run programs that I cannot countenance at the Federal level. Whatever States want to underwrite loans—or as far as that goes, offer grants--will be able to do so, according to their perception of the merits of such charity.

VII

Social Justice

All of the problems I have been describing are the result of the egalitarian mindset, which would rather generalize poverty than see unequal economic outcomes. When Obama and his cronies set out to nationalize our healthcare system, they did so as a result of what I would term a perverted morality. This morality finds inequality the primary sin, and seeks therefore to generalize equality. What it does NOT do is seek to generalize access to happiness. Happiness is presumed to follow from the eradication of inequality, but I would submit that to the extent this may be true, it can only be because of pervasive resentment, itself an ugly and morally retarded sentiment.

As Bono put it on Oprah "In America, you see that house on the hill, and you say someday I want to be that guy; in Ireland we see that house and think 'someday I'm going to get that bastard'". Which sentiment is more exalted? Obamacare is about "getting that bastard". It is not about personal excellence. It is not about building new and wonderful things. It is about punishing insurance companies, doctors, and hospitals for perceived abuses, and to a lesser extent the private sector as a whole, which socialists demonize because they are ignorant.

As I have shown, all of these institutions provide needed products at prices that are higher than they need to be because of government interference, but which can be brought under control through simple means. The only outcome of making life harder for them is that they will provide less than they do, at lower quality. Anyone can get a cot in what they call a hospital in Cuba, but unless they are Communist Party members—a member of the sorts of elites which incongruously emerge in every Socialist nation—they will not get adequate, much less good, medical care.

In closing, I would like to offer a simple analogy. Let us say that when your child is born you are offered tickets to two lotteries. In the first lottery, there are some tickets which will make him rich. There are some tickets that will make him poor. Most of the tickets will get him a life just a little bit better than yours. The second guarantees that he will have exactly the same life as everyone around him, but makes no promises as to wealth, and in fact is likely to net a condition just a bit worse than your own. It is not, in fact, an actual lottery ticket, but an assignment.

I would submit that those who deserve the blessing of liberty better men and women than us fought for would choose the first ticket without a moment's hesitation. What is life without risk? In daring there is beauty, and I for one cannot countenance a world denuded of it.

Our choice is simple: do we continue on the path of ugliness, or risk something better?