

NATIONAL DEFENSE UNIVERSITY
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**THE FAILURE OF THE CLINTON ADMINISTRATION'S HEALTH CARE
REFORM: A MATTER OF SUBSTANCE OR PROCESS?**

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**The Failure Of The Clinton Administration's Health Care Reform:
A Matter Of Substance Or Process?**

The call came during your best night of sleep in months. When the man on the other end identified himself as a police officer, you felt like your heart was going to jump out of your chest. As you slowly calmed yourself down, the picture became clearer. Your twenty-year-old son had been involved in a horrendous car crash. He was the lucky one, but lucky was a relative term.

Fast-forward 23 days and his release from the hospital has finally arrived. Your family and the hospital staff are elated. It seems like the doctors use the word “miracle” in every other sentence. Your son looks good compared to that first night. The lacerations are healing, the broken jaw is set, and his rather severe memory lapses should diminish within a few months. You couldn't be happier given this terrible situation.

Then they drop the bomb on you—the bill ... or should I say bills—nine of them to be exact. As the clerk itemizes the charges, you start to get that sinking feeling again and your heart races like it did on the night of the accident. Although you have what you thought was good insurance, the world of health care had changed while your family enjoyed the good times. Your part of the bill will be \$96,307.23, due at the end of the month. At that moment you realize that your life has changed forever. Simply put, it's now a train wreck, and the worst part is that you didn't have a clue that it was coming.

Health Care In Crisis

The scenario above is repeated in towns large and small all across America, each and every day. Singles, working families, and retirees of all socioeconomic strata are faced with the consequences of double-digit increases in health care costs, while coverage continues to shrink. In 2000, public and private expenditures on health care were \$1.3 trillion, representing 13.2 percent of the Gross Domestic Product (GDP).¹ By 2011, health care spending is expected to reach 17 percent of U.S. GDP.² These unprecedented growth rates are affected by many factors—most of all being the increased use of the health care system, general price inflation, price inflation of specific medical services, and aging of the population.³

Americans are feeling the burden of the current health care crisis. Between 1996 and 2000, health insurance premiums increased more than 30 percent for private-sector employees.⁴ According to U.S. census data, the median household income of typical American families in 2000 was \$41,990,⁵ while the average annual health insurance premium for family coverage was \$6,772 or 16 percent of their pretax income.⁶ Not only is health care extremely expensive, it also may be becoming increasingly difficult to obtain. Even though the proportion of private-sector employers that offered health care

¹ K. Levit, C. Smith, C. Cowan, et al., “Inflation Spurs Health Spending In 2000,” Health Affairs 21 no. 1 (2002): 174-81.

² Levit, et al.

³ U. Reinhardt, P. Hussey, G. Anderson, “Cross-National Comparisons Of Health Systems Using OECD Data, 1999,” Health Affairs 21, no 3 (2002): 169-81.

⁴ Agency for Health Care Research and Quality, “Health Insurance Premiums Rose More Than 30 Percent between 1996 and 2000,” Press Release, September 12, 2002.

⁵ US Census Bureau, USA Statistics in Brief. <<http://www.census.gov/statab/www/part3.html>> (12 January 2003).

⁶ Agency for Health Care Research and Quality.

plans rose from 52.9 percent to 59.3 percent between 1996 and 2000, the proportion of eligible employees actually declined from 81.3 percent in 1996 to 78.9 percent in 2000.⁷

Current and future retirees are also facing serious health care challenges. A recent survey of 435 U.S. companies, including 36 Fortune 100 firms, indicated that retirees younger than 65 years paid average annual premiums of \$1,836 for a single plan and \$3,936 for a couple.⁸ One-quarter of the companies surveyed also stated that they are considering placing a cap on annual contributions to retiree health plans, making beneficiaries liable for bills that exceed the cap.⁹ More importantly, 20 percent of the employers reported that they might “eliminate health benefits for retired workers within the next three years.”¹⁰ Additionally, a vast majority of the firms said they plan to “terminate health benefits for employees already qualifying for retirement.”¹¹ Motorola, for example, already has discontinued retiree health subsidies for those employees who started after 1 January 2002.¹²

Widespread dissatisfaction with the American health care system is also rising.¹³ In January 2003, a physicians’ group in West Virginia displayed their frustration by engaging in a limited strike that diverted emergency cases to bordering states. At the same time, the Commonwealth of Pennsylvania was forced to address rising malpractice insurance costs when emergency room physicians and surgeons threatened a general strike. In addition, a recent Harris Poll found that 48 percent of employers, 50 percent of

⁷ Agency for Health Care Research and Quality.

⁸ Todd Zwillich, “Rising Costs Eroding US Retiree Health Plans,” Reuters Health Information, December 5, 2002. <http://www.nlm.nih.gov/medlineplus/news/fullstory_10713.html> (5 December 2002).

⁹ Zwillich.

¹⁰ Zwillich.

¹¹ Zwillich.

¹² Zwillich.

¹³ Mark Stanton M, “Reducing Costs in the Health Care System: Learning from What Has Been Done,” *Research in Action*, Issue 9. AHRQ Pub. No. 02-0046. Agency for Healthcare Research and Quality, September 2002. <<http://www.ahrq.gov/research/costsria>> (5 December 2002).

health plan managers, 51 percent of hospital managers, and 48 percent of physicians stated that “radical change” is needed.¹⁴ Moreover, the report predicted that dissatisfaction will continue to increase as out-of-pocket costs rise and concern about prescription drug prices grows.¹⁵

Clintoncare—The Health Care Reform Initiative of 1993

The current health care crisis is not a new phenomenon in American society. Health care reform was a critical issue of the 1992 presidential election. During the campaign, it had “emerged as the number-one concern of voters, even above education.”¹⁶ Taking note, candidate Clinton included health care reform as a component of the activist agenda that propelled him into the White House.

On 25 January 1993, President Clinton announced the appointment of his wife, Hillary Rodham Clinton, as the head of the National Task Force on Health Care Reform.¹⁷ Commenting on her qualifications to lead this ambitious initiative, President Clinton remarked, “She’s better at organizing people from a complex beginning to a certain end than anybody I’ve ever worked with in my life.”¹⁸

The task force had been empowered with the creation of a plan to provide comprehensive and affordable health care to virtually all Americans, and was to present its report within 100 days.¹⁹ However, as the deadline came and went, no plan emerged. Furthermore, when the plan finally was presented to Congress near the end of the year, it

¹⁴ Harris Interactive Health Care Research, “Attitudes Toward The United States Healthcare System: Long Term Trends,” *Health Care News* 2, 17 (2002).

¹⁵ Harris Interactive Health Care Research.

¹⁶ Joyce Milton, *The First Partner—Hillary Rodham Clinton: A Biography*. (New York: Perennial, 2000), 256.

¹⁷ Milton, 274.

¹⁸ Milton, 274.

¹⁹ Milton, 274.

was generally considered to be unacceptable and never made it to a vote. The purpose of this paper is to examine President Clinton's health care reform initiative and determine if the process used or its content was responsible for its failure.

The Task Force—A Lesson on Big Ideas and Exclusion

The task force was responsible for preparing the plan and ensuring it was ready to be presented to Congress by the 100-day deadline promised by the President. Its members included the Secretaries of Health and Human Services, Treasury, Defense, Veterans Affairs, and Commerce; the Director and Deputy Director of the Office of Management and Budget; White House policy advisors; and select members of Congress.²⁰ A number of key stakeholders were missing from the task force, including representatives from insurance companies, the pharmaceutical industry, the American Medical Association, the American Hospital Association, and the media. Furthermore, the task force would operate in secret, only making glimpses of the plan public prior to the end of the 100-day deadline.

Ira Magaziner, an avid "Star Trek" fan and longtime friend of the Clintons, was assigned as the chief architect of the health care plan. A classmate of President Clinton at Oxford, Mr. Magaziner was known as a "big-idea man" and a "convert to the merits of industrial policy—a third way between socialism and capitalism."²¹ Although Magaziner was a high-paid management consultant, his failures seemed to be more prominent than his successes. For example, his advocacy for a new type of compressor

²⁰ Anonymous, "Shalala: Hospitals Invited To Help Reshape Healthcare System; Hillary Rodham Clinton Heads President's Task Force on National Healthcare Reform," Healthcare Financial Management, March 1993. <<http://proquest>> (5 December 2002).

²¹ Milton, 257.

that turned out to be defective cost General Electric nearly a half of a million dollars.²² Additionally, when scientists in Colorado claimed to have demonstrated “cold fusion,” he testified to Congress, urging them to spend \$25 million to research the project, which ultimately “turned out to be a figment of the scientists’ imagination.”²³

Magaziner’s plan included three major reform initiatives—universal coverage, mandatory participation in regional health care alliances, and community-rated insurance premiums.²⁴ He believed that coverage could be provided to the 37 million uninsured Americans under his plan without new taxes, and that the plan could actually save several billion dollars per year by 1997.²⁵ However, other members of the task force were not convinced. By April the task force had reassessed the issue and informed the President that reforms enacted before 1997 would cost an additional \$275 billion over four years.²⁶

As the task force developed its plan, the healthcare industry was in the first stage of a revolution in medical technology. Diseases that previously were a death sentence now were treatable, but at a price.²⁷ Consequently, the expectations and costs of health care changed the equation, actually transforming preventive care and its ability to lengthen life into a financial liability. However, according to Joyce Milton, the author of The First Partner, Hillary Rodham Clinton: A Biography, Ms. Clinton refused to accept actuarial data on the financial costs of prevention.²⁸ In an address to the Institute of Medicine, Hillary Clinton stated, “It’s been interesting dealing with actuaries...they don’t

²² Milton, 257.

²³ Milton, 257.

²⁴ Charles Carlstrom, “The Economics Of Health Care Reform: Economic Commentary,” The Federal Reserve Bank of Cleveland, September 15, 1994. <<http://proquest.umi.com/pqdweb>> (5 December 2002).

²⁵ Milton, 256.

²⁶ Chuck Jones, “Healthcare Task Force Considers New Taxes to Finance Reforms,” Life Association News, April 1993. <<http://proquest>> (5 December 2002).

²⁷ Milton, 276.

²⁸ Milton, 277.

believe in prevention. They think if you let people go to the doctor early, they'll just keep going...."²⁹ Milton also reported that Ms. Clinton felt they needed a villain.^{30, 31}

In an attempt to gain public support for the reform plan, some members of the task force tried to discredit the insurance and pharmaceutical industries with speeches that accused them of "price gouging"³² and "profiteering at the expense of America's children."³³

While leading the task force, Hillary Clinton suffered a family health crisis of her own. Her father, Hugh Rodham, Sr., suffered a series of strokes and required placement into a long-term health care facility.³⁴ Like most Americans, he did not carry long-term health insurance.³⁵ Not surprisingly, the Clintons found the situation to be very difficult. Hillary Clinton disliked the loss of privacy and became vividly aware of the gaps in American health care.³⁶ The experience led her to characterize America in a subsequent speech as suffering from a "sleeping sickness of the soul" and call for "new politics of meaning."³⁷ Later, the task force would add long-term health care to its plan, almost ensuring that Congress would never approve it because of its cost.

Meanwhile, strong opposition to the task force was mounting. The pharmaceutical industry was incensed by speeches that had overstated the rise in prescription drug prices.³⁸ Doctors also entered into the fight. The Association of American Physicians and Surgeons (AAPS) filed a lawsuit claiming that the task force

²⁹ Remarks by Hillary Rodham Clinton, Institute of Medicine Annual Meeting, The White House, Office of the Press Secretary, October 19, 1993.

³⁰ Milton, 277.

³¹ H. Douds, "Defamed by the White House," Life Association News, October 1993, <<http://proquest>> (5 December 2002).

³² Peter Flaherty and Timothy Flaherty, The First Lady: A Comprehensive View of Hillary Clinton. (Lafayette, LA: Vital Issues Press, 1996), 194.

³³ Milton, 277.

³⁴ Milton, 282.

³⁵ Milton, 281.

³⁶ Milton, 281-182.

³⁷ Milton, 282.

³⁸ M. Freudenheim, "Drug prices overstated, GAO says," The New York Times, May 30, 1995.

was in violation of the Federal Advisory Committee Act (FACA), a Watergate-era law that requires free and open access to such presidential forums.³⁹ Additionally, AAPS used the Freedom of Information Act to obtain task force working papers that revealed sloppy budget management and gross overexpenditures.⁴⁰

Increasingly frustrated by their exclusion from the task force, the insurance industry began “mobilizing its own lobbying effort.”⁴¹ In early September, the Health Insurance Association of America began running their now famous “Harry and Louise” television commercials that portrayed a typical couple discussing how the Clinton plan “could lead to rationing, a loss of choice of doctors, and a decrease in quality of care.”⁴² In response to these highly effective ads, the task force and the Democrats retaliated with their own commercials; however, they failed to convince their target audience—the American public—that the reform plan was the answer to the health care crisis.

The APPS lawsuit also was a big setback for the task force. Headlines in the Washington Times reported that the “First lady’s task force broke law on secrecy.”⁴³ Not only was the task force’s secrecy an issue, but employment of its members was also brought into question. In a sworn deposition made on 3 March 1993, Ira Magaziner falsely stated that all of the task force members were government employees.⁴⁴ One week later, U.S. District Judge Royce Lamberth ruled that the task force had indeed violated FACA and must open its meetings to the plaintiffs and the media.⁴⁵ However,

³⁹ Milton, 280.

⁴⁰ Milton, 287.

⁴¹ Milton, 286.

⁴² Flaherty and Flaherty, 193.

⁴³ Paul Bedard, “First lady’s task force broke law on secrecy,” Washington Times, 29 January 1993.

⁴⁴ Flaherty and Flaherty, 189.

⁴⁵ Flaherty and Flaherty, 190.

the White House appealed the ruling and it was overturned on 22 June after the task force had disbanded.⁴⁶

Ira Magaziner's troubles did not end there. Based on his sworn statement, he was suspected of committing perjury but escaped indictment on criminal contempt charges. However, in 1997 Judge Lamberth ruled that "his affidavit was deceptive and ordered the government to pay \$285,864 to cover the legal bills of AAPS."⁴⁷

Health Care Reform—The Plan Succumbs to a Slow and Painful Death

The National Task Force on Health Care Reform was supposed to present its findings to Congress on 30 May 1993.⁴⁸ However by August there was little Congressional interest in the emerging plan because of its high costs, so "President Clinton threw his support behind a compromise plan offered by Senator George Mitchell."⁴⁹ The final plan, known as the Health Security Act, was delivered to Congress on 22 September 1993. It was a massive 1,342 page document that called for "cradle to grave" health care under the control of a National Health Board and funded by new payroll taxes.^{50, 51, 52}

Response to the Health Security Act was not favorable. Eighty-one percent of American companies polled strongly agreed that the plan would create unnecessary bureaucracy. Sixty-nine percent of the companies polled also indicated that their

⁴⁶ Flaherty and Flaherty, 191.

⁴⁷ Milton, 293.

⁴⁸ Flaherty and Flaherty, 192.

⁴⁹T. Kerr, "Health Care Reform: An Update," Pennsylvania CPA Journal. October 1994. <<http://proquest>> (5 December 2002).

⁵⁰ Flaherty and Flaherty, 192.

⁵¹ Jean Scott "Highlights of the Clinton Healthcare Reform Plan," Computers in Healthcare, November 1993, <http://proquest>.

⁵² Jones.

employees would not be better off under the plan.⁵³ Based on poor public support for the plan and little interest in Congress, the White House sent covert signals to leaders in Congress to ensure it never came to a vote and thus killing Clinton's comprehensive health care reform initiative.⁵⁴

So What Went Wrong—Was It Substance Or Process?

The failure of the Clinton health care reform initiative was a matter of both substance and process. The Health Security Act had several fatal flaws.⁵⁵ Most of all, it was overly complicated and beyond the understanding of most employers, legislators, and many health care experts.⁵⁶ According to the plan, all employers would have been forced to provide health care insurance to their workers. Large firms could have chosen from a variety of options while small businesses would have been required to join regional alliances or establish separate contracts on their own. Not surprisingly, small businesses owners were extremely fearful that they could not afford this mandate.^{57, 58}

The Health Security Act also would have had put substantial pressure on the federal and state governments. By creating a huge new entitlement without establishing the mechanisms to fund it, and disbanding existing programs such as Medicaid, the plan would have forced governors to completely reinvent the way health care was funded in

⁵³ Anonymous, "Coopers & Lybrand Survey Of Employers Shows Skepticism On Efficacy Of Clinton Healthcare Task Force Reform Proposal," Computers in Healthcare, November 1993. <<http://proquest>> (5 December 2002).

⁵⁴ Milton, 321.

⁵⁵ Richard Clark, "Healthcare Reform: Now What?" Healthcare Financial Management, November 1994. <<http://proquest>> (5 December 2002).

⁵⁶ Clark.

⁵⁷ James Risen, "Washington Watch: Next In The Crosshairs?" Financial World, April 26, 1994. <<http://proquest>> (5 December 2002).

⁵⁸ Arnold Chassen, "Health Care Reform – A Closer Look," Management Accounting, December 1991. <<http://proquest>> (5 December 2002).

their states.⁵⁹ Furthermore, cost control “caps” on prices would have undermined market forces and possibly led to critical shortages of a number of health care specialties throughout the U.S.^{60, 61}

More importantly, Clinton’s health care reform initiative was a colossal political failure. By the time the task force had disbanded, Hillary Clinton had been accused of violating federal law, Ira Magaziner was nearly indicted on criminal contempt charges, and more than \$11 million had been spent when only \$300,000 was budgeted.⁶² Moreover, the task force had neglected to identify the major stakeholders and seek “buy-in” for its health care plan. By excluding them—the insurance industry, the pharmaceutical industry, physicians’ groups, large and small employers, the media, and a multitude of others—from the planning process, the task force created a huge, powerful, and well-financed adversary. This short-sighted and extremely detrimental action violated what I consider are the fundamental rules of the political/interagency process:

1. the enemy you make today may be the friend you need tomorrow;
2. the friend of an enemy is likely to view you as an enemy, and;
3. politics by definition involves compromise—compromise generally involves mutual concessions.

Furthermore, the Clinton administration was unable to get substantial support from the American public and the Congress for the plan. This aspect of their political failure will have the most damaging and enduring effects on American society. Future presidents and leaders in Congress will be extremely reluctant to spend the political

⁵⁹ Clark.

⁶⁰ Carlstrom.

⁶¹ Joseph Coyle, “Who wins under Clinton’s health-care plan and who loses,” *Money*, May 1993, <<http://proquest.umi.com>> (5 December 2002).

⁶² Milton, 287.

capital required to make needed changes to our broken health care system. Consequently, the future of health care in America is rather dim.

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