

on the dollar more in sheer paperwork than all competing systems. That not only has financial consequences; it has terrible personal consequences. We've found some people here who have been lost in that maze, and I wanted you to hear their stories.

So let me ask now James Heffernan from Florida—I'm going to try to pronounce this right—Carol Oedegeest—close enough?—from California to read their letters, and the Vice President will respond.

[*The participants read their letters and Vice President Gore responded.*]

*The President.* Let me say that I hope all of you are familiar with—at least have heard about the Vice President's brilliant report on reinventing Government. And he's given us suggestions that will save the taxpayers \$100 billion over the next 5 years, if we can implement them all, and free up that money to reduce the deficit or invest it in needed programs. But the health care system needs that, too. And our strongest allies in this, I think, will be doctors and nurses.

To illustrate what he said, let me just give you two statistics with this nurse sitting here. The average hospital in America has hired clerical workers at 4 times the rate of health care providers in the last 10 years. Think about it. Another thing: In 1980, the average doctor took home 75 percent of the money that came into his or her clinic. They just took it home. By 1990, that figure had dropped from 75 to 53 cents on the dollar, the rest of it going to paperwork. You wonder why the bills are going up? So this is a huge deal.

I also want to thank publicly, I think—I've not had a chance to do this—I want to say a special word of thanks to Tipper Gore for being such an active member of the Health Care Task Force and being such a passionate advocate for the interests of the mentally ill and the interest that the rest of us have in dealing with it in a more sensible and humane fashion.

And I'd also like to thank the First Lady for the work this task force has done, not only for receiving 700,000 letters but for meeting with literally 1,500 different interest groups and involving thousands and thousands of people in the health care system itself.

In the months ahead, as we debate health care reform, you will hear numbers and arguments fly across America. I hope that this beginning will help us to remember that fundamentally this is about people, about all of you that have read your letters, about all of you who wrote us letters who are out here today whose letters couldn't be read. I invite all of you to speak to the members of the press who are here about your stories.

I just want to thank you for coming and for having, particularly these people, for having the courage to tell us their personal story and to tell America their personal stories. We can do this. We can do this if we recognize that even though it's complicated, we can work through it, if we will listen to the voices of the real people who know it has to be better and different.

Thank you very much.

NOTE: The President spoke at 8:10 a.m. in the Rose Garden at the White House.

## Remarks and a Question-and-Answer Session With Small Business Leaders on Health Care Reform

September 16, 1993

*The President.* Thank you very much. First of all, I want to echo what Erskine Bowles said. I thank you for taking some time off today to come in here and just visit with me about this whole health care issue and about what we're trying to do and about your personal situations and whether we're responding adequately to them.

Let me tell you that one reason we're a little late this morning is that I started the morning—some of you may have seen it on television—I started the morning with about 15 people of the 700,000 people who have written letters since I asked my wife to chair this health care group. Seven hundred thousand Americans have written us about their personal situation. A lot

of them were small business people. Some of the people who were there today at our morning meeting in the Rose Garden were small business people. A lot of them were people with sick family members, people who were locked into jobs they couldn't ever change, all the things that you know about. But I wanted to leave that group—and we had another 100 people who've written letters who just were asked to come and be in the audience—I wanted to leave that group and come straight here because it is the small business community that, as business people, will arguably be most immediately affected, although there will be an impact on larger businesses, too.

First, I'd like to thank our hosts, the Siegels, for letting us come to this great small business which goes back to 1866. Most of us weren't around back then. I really appreciate you doing that. I want to thank Mayor Kelly and so many of the DC City Council members for being here. And we're delighted to be here. Harry, I think we're in your district, aren't we? Your ward. We're glad to be here.

Let me just make a few opening remarks, and then I'd like to hear from all of you. We have a lot of problems in this health care system. There are a lot of things that are right about it. Most all Americans get to pick their doctors. And we have high quality care if you can access it. But every month, hundreds of thousands of people lose their health insurance and over 100,000 of them lose it permanently, so that each year more and more people are without health care coverage. We're the only advanced country in the world that doesn't have a system to provide a basic health care package to all of its citizens.

The second thing that happens is that the cost of health care, particularly since 1980, but really before that, but especially since 1980 has been going up much more rapidly than inflation, 2 and 3 times the rate of inflation.

The third thing is it's hitting small businesses and self-employed people much harder than bigger employees now because they tend to be in much smaller insurance pools. So if one person gets sick in that pool or one person gets sick in the employment unit, it can rocket your costs. We were with a person today earlier who between 1989 and 1992 had their premiums quadruple, from something like \$200 and some a month to over \$900 a month.

The third thing is that very often small business people, to get any insurance coverage at

all, have to have astronomical copays and deductibles, so that it becomes almost dysfunctional for their employees. And more and more small businesses every month are having to drop their coverage.

Now, the flip side of that, believe it or not, is that many big businesses have been able to maintain generous benefit packages but only at the expense of never giving their employees a pay raise. And we're looking at a situation now that for the rest of this decade we could, in effect, take away all the pay raises for the work force of this country to go into higher health insurance premiums, unless we do something. So it's a very, very serious problem.

You also have a health care system that is wildly inefficient. None of you could run your businesses and stay in business with a system that had the administrative overhead and the paperwork burden and the bureaucracy that the health care system does. The average hospital is hiring clerical workers at 4 times the rate of health care providers. The average doctor in 1980 took home 75 percent of the money that came into the medical clinic; by 1990 it had dropped from 75 cents on the dollar to 53 cents on the dollar—going to bureaucracy, paperwork, the way the insurance system is organized.

So what we tried to do is to come up with a plan that would require every employer and employee to contribute something; would have a cap of 7.9 percent of payroll as a maximum that anyone could be required to pay; would provide some subsidies for employers with under 50 full-time employees, which means you could have more if some of them were part-time, all the way down to 3.5 percent of payroll, depending on the wage rates; and would lower the cost increases of health insurance to all Americans.

The most controversial aspect of this is requiring all employers and employees to contribute some portion of the cost of health care. The problem is if you don't do that, it's going to be very hard to get costs under control because unless everybody contributes, there will always be a lot of cost shifting in the system. That adds a lot of administrative costs. It also means that the people who are paying for health insurance are paying more than they would otherwise pay, because they alone pay for the infrastructure of health care, the hospitals, the clinics, the people that are there. And they alone pay

for the emergency rooms and the uncompensated care in that regard.

So we're trying to work this out in a fair way that's bearable. But I believe it will aid the American economy and will help small business growth if we do it properly. That will be a big point of controversy as we debate this over the next few months.

So I wanted to start on the first day right from the get-go, if you will, hearing from the small business community. And I'd like to—who wants to go first? Our host. And make sure that you've got the microphone close enough to you.

*[At this point, a participant asked if the economic situation would not be compounded as the new health care plan would force small businesses to raise prices.]*

*The President.* It would be, except most small businesses under this system will actually have lower costs. Keep in mind, most small businesses are providing some health coverage to their employees now at astronomical costs. Many small business families are self-employed and insure themselves as self-employed. Self-employed people, under our plan, will get much lower premiums, much lower, because they'll be in big insurance pools. And they'll also get 100 percent deductibility for their insurance premiums, not 25 percent, for the first time. So those will go down. All employers who offer anything will have their employees go down now. Employees with groups under 50 will start out, most of them, paying less than \$1 a day per employee for health insurance under our system.

*[Administrator Bowles stated the new plan would enable small business owners to provide comprehensive, low cost coverage.]*

*The President.* I don't mean to minimize this, but let me tell you what the flip side of this is. Every year one of the things that adds to the cost of health care in America is cost shifting. So every time the Government doesn't pay for the people we're supposed to cover or somebody else doesn't pay and somebody shows up in an—somebody without health insurance normally won't get health care in a preventive and primary way where it's cheapest, but they'll get it when it's too late, when they're really sick, often showing up at the emergency room. All those costs get shifted onto someone else. And

then their competitiveness is eroded, so they eventually drop their health insurance. And more and more people keep dropping it. It's just sort of in a death spiral every year where more and more people drop their insurance, more and more people are uninsured. And then the people who are insured are paying for all of them when they finally access the system.

And as I said, we're the only country in the world that does it this way. We're the only country in the world with 1,500 separate health insurance companies writing thousands of different policies and trying to divide little small businesses up into smaller and smaller groups. Some of these groups are so small that the overhead, that is, the insurance company administrative costs and profit, is up to 40 cents on the dollar. We can't sustain the system.

I don't pretend that even a dollar a day per employee won't be more difficult for some small businesses. It's just that we can't figure out any other way to fairly apportion the cost of this system and keep everybody covered and finally get the cost under control. The costs are spiraling out of control.

The other alternatives are nobody gets coverage, or the taxpayers pay it. And if the taxpayers pay it then, in effect, we're raising taxes on people who are already paying way too much for their health care to pay for people who aren't paying anything.

So I think this is a fair way. And what I would ask you to do and everybody in your circumstances is when we produce the copy, the final copy of this health care plan, because we're still in extensive consultations on it, but in the next several days, I'd like to ask you to go over it, calculate exactly how it will affect you, and then draw a conclusion about how you think it will impact you. Look at the specific facts and get back in touch with Erskine Bowles and tell him how you think it will affect you.

*[A participant asked who would be responsible if the new plan is overutilized and costs begin to rise.]*

*The President.* I'll answer your question, but let me say first of all, you're much more likely to have overutilization and exploding costs if we keep on doing what we're doing than if we adopt our plan. In other words, particularly for smaller employers, costs have been going up on average anywhere from 20 to 50 percent a year. Only the very biggest employers that

are able, in effect, to bargain more toughly with their own insurance providers have been able to hold their costs in line, and they've been able to do a little bit better job in the last few years simply because of their size.

So under our system you would not only start out with a lower premium than you're paying now so you would get an immediate savings, you'd be part of a big alliance of employers and employees who would have some say over the governing of your big health care group. And if the evidence of every other country is any guide, if the evidence of the places which have started it in this country is any guide, the cost is going to go up much less rapidly under this system than it will if we stay with what we've got. In other words, the worst alternative that we can conceive is to continue to do what we've got for small business.

Now, in addition to that, we've proposed to have a backup budget cap so that if by pure competition you can't keep costs as low as we think that—you know, basically to inflation plus the growth in people participating, we'll still have a budget to limit it.

So the answer to your question is, there is no conceivable scenario, at least that I can conceive of, where you would wind up paying more under this plan than another. Also there are more incentives in this plan not to overutilize the system, not just for your employees but for the American people as a whole. Under our plan all the employees in the country would have to pay something towards their own health care up to 20 percent, which is something that many don't now. And if they wanted a more generous plan than we cover, which is quite adequate, they would have to pay even more. So there will be a lot of incentives not to overutilize the system and not to run the cost through the roof.

Let me also point out that over the next 5 years, since you mentioned the short-term period, that's the period over the next 5 years where we'll be realizing a lot of the administrative savings. Our country stands approximately a dime on the dollar more in paperwork than all of our competitors. That's a bunch of money in an \$800 billion health care system. So if—let me just say this—if what we've tried to do in implementing this health care system is to phase it in over a period of years, to build in corrections so if something goes wrong, we will find another way to control the costs, not to increase your costs for this health care.

We are spending—let me say—I want to drive this home. Today, America spends 14.2 percent of its gross domestic product on health care. Canada spends 9.4 percent. No other advanced country in the world is over 9. None. Not Germany, not Japan. And in the German system, which is about 8.6, 8.7 percent of their gross domestic product, the benefits are as generous as the best plans, more generous than most, and contain a lot of primary preventive health care. So unless we just all go to sleep at the switch, this is—you know, there is no way that you can't be better off under this new system.

But there are protections. The way we've got it written, there are basically opportunities to recalculate, to avoid imposing undue burdens on employers 3 and 4 and 5 years down the road. The way it's written, we'll have to have opportunities to readjust it.

The bottom line is, sir, none of us are going to do anything which put more small businesses out of work than are already doing it now, because most of the new jobs in this country are being created in units of under 50. So I wouldn't be doing this if I didn't think it was not only better for the health care of the country but also would tend to stabilize the environment for small business so we could get back to generating new jobs.

*[Administrator Bowles reaffirmed that the new plan would be beneficial to small businesses. A participant then asked about employees with catastrophic or preexisting illnesses.]*

*The President.* First of all, as you know, this is not an unusual condition. This has happened to millions of employers in America and millions of employees. For the employer, the burden is just what you suggested, you're put in this awful situation of having to fire somebody who may be a good employee and making their lives miserable or paying enormously increased premiums.

For the employee, there's another problem for the American economy that's now come to be known under the rubric of job lock. We now live in a country where labor mobility is quite important. The average 18-year-old will change jobs eight times in a lifetime now. And we've got all kinds of folks who can never change jobs again because they or someone in their family's been sick. What we propose to do about it is to reorganize the insurance market

so, first of all, nobody can be denied coverage or dropped from coverage because of a pre-existing condition, and secondly, so that small business employers of people with preexisting conditions don't have undue rises in their premiums because they are in very, very large buying pools. So that the preexisting condition that one of your employees or a family member has, say you've got 30 employees—or how many employees do you have? So you've got 14. That could wreck you if you're in a buying group with a couple of hundred or even a couple of thousand. But if you're in a huge buying pool with 100,000 people or more, or 200,000, then each preexisting condition would only have a marginal impact on you.

We propose to go to what is called community insurance rating. It puts you in a large pool so that that will only have a marginal impact on the increased costs to the total people in the pool. All of them will be represented in bargaining for the package of health insurance benefits with the people who provide it. So it will provide a lot of protection for you, as well as protection for the employees. And it is, by the way, the way it is typically handled in other countries and the way it is generally handled in Hawaii, where 98 percent of the employees are covered by the requirement and where they have a community rating system.

*[A participant asked about the role of private insurance companies.]*

*The President.* Well, let me say that you have that in every country where you have universal coverage, because there are some people who may want a little extra coverage on this, that, or the other thing. But you also have that here, frankly. And a lot of even the better employer-employee plans here—there may be employers, for example, who go out and buy another policy. You see it in Germany also. You see it in nearly every country. But what you might call the customized insurance policy that covers an additional extra risk, you find everywhere. But that's mostly to guarantee more personalized care. Under our system, people who run out of that will have a Government back-stop, if you will, to take care of people and those kinds of problems.

One of the reasons, however, we elected not to try to go to the Canadian system, even though the Canadian system is administratively the simplest, that is, they have the lowest administrative

costs of any system we studied; the Australian system may be about there, and the British system is, but it's all government-owned. No one wanted to get that. The Canadian system is a private health provider system, publicly financed system where all insurance premiums are abolished. Everybody pays a tax, and you just pay it out. It's like Medicare, but everybody's on it. And there's no administrative costs to speak of. It's very low. We decided not to do that for two reasons. One is we thought there would be a lot of aversion to canceling all the premiums and converting it into a tax. And people probably distrust Government about as much as they do big insurance companies. Secondly, if you look at the German system, for example, which is more similar to what we're trying to do, we have private insurance companies with bigger pools for small businesses. We thought that more likely you'd have lower costs and better service if you could put some competition in it and give the employers and the employees some leverage and in effect bargaining with the health care providers for the comprehensive services that will be provided. And that, I think, will tend to keep costs down and keep services more comprehensive.

But there is no country, including the United States, where there is not some what you might call third insurance market, over and above what the government does and what the employers do for speciality coverage. We expect that, in effect, there will be less of that here under this plan than would otherwise be the case.

*[A participant asked if the employer contribution for Social Security would increase and if the national health board would take the place of private insurance companies.]*

*The President.* No. First of all, the answer to your first question is none of us can totally perceive the future. What I can assure you of—and that's what I've said to Barry before—is that under this system, costs will rise much more slowly than they otherwise would.

Let me tell you, we're at 14.2 percent of gross domestic product now. It is estimated that the United States will be at 20 percent of gross domestic product on the health care by the end of the decade and that no other country will be over 10. Canada might be a shade over 10. If we get to the point where we're spotting all of our competitors a dime on the dollar on health care, we're going to be in trouble sure

enough. It's bad enough where it is.

So costs of health care will continue to rise. What we're going to try to do is to bring the health care system's cost in line with inflation plus additions to population. That is, if the population gets older and more people need different kinds of health care, of course, that will go up. But what we can't afford to do is to let health care continue to go up at 2 or 3 times the rate of inflation.

The answer to your second is, the national health board is not going to replace insurance companies, but insurance companies will—if the little ones want to continue to do this they'll have to find a way to join with one another to get into big bargaining units because we've got to let the small business people be in bigger units, otherwise they can't get their costs down. The national health board will be responsible for making sure that there is a reasonable budget to keep the costs in line and for making sure that we have developed reasonable quality standards to make sure that there is no erosion of quality of health care in the prescribed services.

*[A participant asked if small businesses should be limited to obtaining insurance from an alliance program only.]*

*The President.* Well, each State will have the right to certify how many alliances they approve, and my presumption is, given just what you said, is that most States will choose to certify a number of alliances and then you can choose whichever one you want. You'll have the three basic policies that you can choose plus however many alliances there are in any given State or the District of Columbia. You can pick the one that you think will provide the highest quality care and perhaps the one that gets the better price. Keep in mind, we're talking about ceiling on payroll costs, and if they get a better price you get a better price.

*[Administrator Bowles reaffirmed the importance of alliance programs in driving down the cost of health care and stated that businesses will still be able to choose what kind of alliance they want.]*

*The President.* But as an employer, if there are more than one alliance covering your State, you would choose the alliance you wanted to be a part of.

*Q.* Will those alliances compete with each other for prices, or will they—

*The President.* Absolutely. What we're trying to do is get the maximum amount of competition in the system for the services that have to be provided at—

*Administrator Bowles.* Harnessing the power of the marketplace to drive the price down, to put power in your hands instead of in the hands of insurance companies.

*The President.* We are trying not to turn this into a system where the Government has to regulate it all or the Government tries to just fix the prices. We are trying for once to get marketing power. What happens now is the Government doesn't do it, but the private sector doesn't do it either. There's no effective competition except for big buyers.

And let me just say, our estimated costs, which are dramatically less than the system's now but more than inflation, may be too high if you really get competition. The California public employees, for example, have a huge buying unit. And they can bargain for themselves. They got a 3 percent increase this year or something like that.

Companies with over 5,000 employees that are in a position of bargaining for themselves have averaged 6 percent premium increases in the last 2 or 3 years. They've been able to do what we now want small business to be able to do by allowing them to join together. My own personal preference is you should have an option of different alliances to be in. But under the plan as it now is, that is a judgment that will have to be made on a State-by-State basis. And the reason we did that is that the States are in different circumstances. I mean, for example, availability of the number of alliances may be quite different in Wyoming, our least populous State, than it would be in California, our most populous State. So we think it has to be a State-by-State decision.

*[Administrator Bowles added that businesses will save money because they will no longer have to take the time to negotiate with insurance companies.]*

*The President.* Yes, sir. I like your tie, Save the Children tie. I've got one just like it.

*[A participant asked if small business employees would have the same coverage as Federal employees, whether the Government could help small businesses receive credit more easily, and*

*if employees would have to pay 20 percent of their salary on health care.]*

*The President.* First of all, let's start with your first question. We propose to put the public employee groups in buying alliances, just like people in the private sector. And in fact, we hope we'll have a lot of these alliances. We'll have both public and private folks within the same alliance.

In effect, the employees and the employers that have preexisting comprehensive health benefits where the benefits equal or exceed what they're providing now, we don't propose to take those away from them, those that are paying more and do it, but even many of them will be better off.

For example, General Motors—I don't think I'm talking out of school here. I believe it's General Motors—is now paying about 19 percent of payroll on health care costs, about two-thirds for existing employees, one-third for retirees. They will actually, over a period of years, have a very steep drop in their payroll costs, which will enable them to hire more people and also invest more money and do more business with their smaller contractors around the country. That's just one example.

The short answer to your question is, yes, we want the public employees to be in the alliances as well.

With regard to your second question, we believe that the credit system should be opened up. You may know, I've been trying since I first got in office to simplify the banks' regulatory system and to get them to be able to make more good faith loans again and to do a lot of that. I must say, we're trying to do a canvass of the country now. We're getting wildly uneven reports. I had three Congressmen, for example, from the heartland of the country the other day tell me they just had lunch together, and they were all three spontaneously talking about how much different it was and how banks were loaning money to small businesses again. But as I talked to most bankers and most business people in California, New England, Florida, just to give you three examples, I hear basically no difference. So maybe Erskine would like to address that. I do think that the general availability of credit to small business is still a big problem in this country.

The third thing I would say is that most employees with modest wages will not be paying

a great deal for their health care. If they get sick and have to get health care without any insurance, they may face a much bigger bill. Meanwhile, all the people who are paying something for their health care are in effect paying to keep the infrastructure of health care there for them.

If I were to propose to you, for example, the following proposition, that it is unfair to make some people pay the gas tax because it's tough on them, there would be a riot in this country, because people think that we should all pay for the infrastructure of the highways. But there is an infrastructure of health care. And those of you who pay something for your health care have paid for it. You have paid just to have the hospitals there and the emergency room there and the doctors there when someone else needs it.

It seems to me, if you want to simplify the system and control costs, one of the things that you've got to do is stop the cost shifting. So I would argue that even though it might be tough, that to ask employees to pay 20 percent of the cost of health care, if you're controlling the cost and—not only you're controlling it today and providing it to them cheaper than they could otherwise get it but also make sure that the cost goes up more in line with inflation instead of 3 or 4 times the rate of inflation, that that is a fair thing to ask people to do.

Do you want to talk about the credit issue for a minute?

*[Administrator Bowles discussed caps in the plan to prevent employees from paying too much and efforts to make credit more available.]*

*The President.* I guess I'd be remiss if I didn't say this. Most everybody in this room will be a net beneficiary from the fact that the recent economic plan increased the expensing provision from \$10,000 a year to \$17,500 a year. For people who don't have any insurance now and are going to provide some, that increased expensing provision will probably for many thousands of small businesses more than cover the increased cost of the premiums. They access it.

*Administrator Bowles.* Mr. President, I did promise that I would get you back very quickly, so we don't have much more time.

*[A participant asked how preventive care would be addressed in the new plan.]*

*The President.* Yes, wasn't that great? First of all, what I know about your situation, you will benefit, I think, considerably from this, from the premium cap. But secondly, one of the things that we built into this coverage was a preventive and primary care component.

I don't want to pretend that the only reason health care is more expensive in America is because of the insurance system and the administrative costs, although that's a big reason, and because you don't have any buying power. But another reason is, we go way heavy on specialty care and high-technology care, which is great if you need it. And it will keep us from every get down to what some other countries have. That's why I think we're all willing to pay a premium because we know someday we or some loved one of ours may need that extra operation or that fancy machine.

But it's important to recognize that in America, for example, only about 15 percent of the graduates coming out of our medical schools now are general practitioners. In almost all the other countries with which we're competing, about half the doctors are general practitioners. They do primary and preventive care.

So we have done two things that I think are important. In this plan we will increase the money for medical research. But at the same time we will provide more incentives to the medical schools of our country to produce more primary care physicians, more family doctors, if you will. And in the health care plan, we will cover more preventive services, because it is just clear that the more you do preventive medicine, the more you lower the cost of health care and the healthier you keep your folks.

[A participant expressed concern that the cost of the new plan would prevent some small businesses from competing in a global economy.]

*The President.* Well now, I think the numbers do add up. Some small businesses will pay more, plainly. Those who aren't paying anything and those who are paying less than they would otherwise pay under the initial premiums set unless we are able to—our estimate unless in the bargaining power they'll even be able to bargain for lower prices, which is conceivable. But we have to start out with something.

But there's a lot of talk about these numbers not being—I'd just like to tell you what we've done over the last 7 months. Number one, for the first time we've got four Government De-

partments that agree on the numbers, that the numbers are accurate at least, and we have run these numbers through 10 actuarial firms, private sector firms. So we have tried to get at least the first set of numbers that have ever been through this sort of vetting process from any private or public agency on health care. No one else has ever done as much work as we have tried to do to make sure the numbers work out. Keep in mind, we proposed for the Government to cover the uninsured who are unemployed.

We believe you can't get costs under control and stop cost shifting unless you have some means of insuring everybody else. We believe employers should do something. There are those who may have to pay more because their premiums are quite low, and we're going to increase the coverage substantially. But all of our surveys show that is a distinct minority of the people who provide any insurance now, that many people who provide insurance now will actually get, unbelievably enough, lower premiums and more coverage. But some will pay more. I don't want to minimize that; some will. What I think all of you are going to have to do is two things. You're going to have to read the plan when you get the details, when we finally produce it, and say, "How's this going to affect me, and can I live with it?" And then you're going to have to say, "How will it affect the small business sector of the economy as a whole, and are we net better off?"

And more importantly, I would argue to you that even those of you—let's suppose there's an employer here in this group who will go from 6 percent of payroll to 7.9 percent of payroll. If you look at where you've come in the last 5 years, if we don't do something to bring these costs under control, you're facing one of two decisions. You're either going to have to drop your coverage altogether with all the attendant insecurities and anxieties and problems that presents for your employees, or your costs are going to go through the roof.

So my argument is—I really believe this, this goes back to the very first question Barry asked—my argument is that in 5 years from now, even the people who pay slightly more now will be better off because the overall system's costs will be controlled for the first time, and we're not going to be strangled with it. That's why we tried to at least do a phase-in for the smaller employers.



[A participant claimed the new plan would result in job loss due to increased health care costs for small businesses.]

*The President.* How can it possibly triple your health care costs?

*Q.* We're paying currently about 2.9.

*The President.* To do what?

*Q.* For major medical benefits—of payroll costs.

*The President.* What does it cover?

*Q.* What are they covering?

*The President.* Yes.

*Q.* Major medical, 80/20. Catastrophic care.

*The President.* Well, we tried to have a catastrophic package, remember, a few years ago? And the whole country rose up against it.

All I can say to you, sir, is that if we don't do something like this, then everybody's going to be going in the same direction you are. I mean, we are looking at a situation now where we're going to give the pay raises of American workers to the health care lobby. That's where we are now. We are looking at a situation, if we don't do something—maybe Erskine's got a specific answer to you. But if we keep on doing what we're doing, more small businesses will go bankrupt, more people will do without health insurance. We're basically going to give our economic growth to health care for the next 7 years if we keep on doing what we're doing.

And if we don't require some uniformity of coverage, then everybody will want the lowest common denominator, and the Government will wind up picking up the bill for all the other health care costs. I mean, there is no way we can, I don't think, solve every problem. But if there is something we can do for people like between 50 and 100 employees, if there's something else we need to look at, we ought to do it. But I still believe—I will say to you—every study shows, the National Small Business United study shows, that the vast majority of small business people will come out way ahead economically on this. So the question is, are we going to lose more jobs doing what we're doing? Are we going to lose more jobs with the alternative? I argue to you that we have killed this economy now unconscionably for the last 12 years by letting health care costs go up as they have.

[Administrator Bowles again stated that the new plan would enable business owners to provide comprehensive, low cost coverage. A participant

then asked about low-profit small businesses, as compared to his own highly profitable restaurant.]

*The President.* First of all, let's just take somebody's running a family restaurant and they make \$20,000 a year. The following things will happen to them: First of all, they'll be capped at 3.5. Secondly, their expensing provision of the Tax Code went from \$10,000 to \$17,500. Thirdly, they're going to get a tax cut under the new tax bill because their family's working for a living and because of their low income.

So those folks are going to do fine. The people that I'm concerned about here are people who have—people like him, say people who net between \$50,000 and \$100,000 income, have more than 50 employees, and aren't eligible for the cap the way the bill's now drawn. Anybody who is under 50 employees with anything like in the wage range we're talking about, I think will probably recover between the caps and the expensing provision, will probably be able to manage through this okay in the early years. The people that I'm most worried about are the people in the category of this gentleman here who spoke.

*Q.* Won't there still be a cash flow problem for these small businesses, though? And how will that be addressed? Is this a percentage of their salary that will be withdrawn every paycheck, or how will that work?

[Administrator Bowles stated that the cost increase per employee would not be appreciable.]

*The President.* One of you asked a question about the employees, too, about how they could pay and whether they could pay. Don't forget that under this tax bill that just passed, most families, working people with children with incomes of under \$27,000 a year, are going to get a tax reduction which will help them to deal—if they have no health care costs now—with the upfront cost of this. Most of them will have a tax reduction that exceeds what their 20 percent cost of the premium will be.

I think the real problem, by and large, there may be some—I can conceive of economic circumstances under which these problems will occur that you talked about. But I think the real problem here in the way the plan is drawn now is the people in his category.

*Administrator Bowles.* Can we close with one—

*The President.* Well, let's take two more. These folks in the back, and then our hosts ought to be able to close up.

[A participant asked if the plan would address behavioral causes for increased health care costs.]

*The President.* Yes, well, let me sort of reinforce what she said. I'm going to back off one step and then I'll come right back to your question. If someone asks me, is there any conceivable way America could get its contribution, that is, the percentage of our income we pay going to health care down to Canada's or Germany's, I would say no. And I would say no for some good reasons and then no for some not so good reasons.

One good reason, though, that we probably all agree on is that we spend more money on medical research, advanced technology, trying to break down barriers, trying to help people live longer and better lives than any other country. And I don't think any of us would want to give that up. Let's just say that adds 1 or 2 percent to our contribution to health care. It also employs a lot of people, by the way, who make basically high incomes and make our economy stronger. So I don't think any of us would want to give that up.

But here, to go back to your point, are the down sides. We have a lot of people who smoke, a lot of people who are overweight. We also have a higher percentage of teenage births which are far more likely to be low birth weight births, far likely to be very costly, and far likely to lead to children with mental and physical limitations. We have the highest percentage of AIDS of any advanced nation, and that's extremely expensive. And as, thank God, we find drugs to keep people alive and their lives better longer, it will be more expensive. We have to have a preventive strategy there. And perhaps most important of all, and here in Washington I think I could say it and get a cheer from the Mayor, this is the most violent advanced country on Earth. We have the highest percentage of our people behind bars of any country, which means that every weekend we've got more people showing up at the emergency room cut up or shot than any other country, and the rest of you are all paying for it.

So yes, we need a strategy to change those behaviors. We could start by passing the Brady bill and taking semiautomatic weapons out of

the hands of teenagers. It would change the environment. Nobody ever talks about it that way, but if you did something about this, it would lower health care costs. I mean, if you could get a spreadsheet on the cost of health care in Washington hospitals, you would see that an awful lot of it goes to the emergency room.

So the answer to that is yes. One of the reasons I made the appointment I did to the Surgeon General's office is so that we could have a broad-based, aggressive, preventive strategy to change group behaviors as well as individual ones.

[A participant asked what decisions were still to be made before the plan could be implemented.]

*The President.* Well, there are a lot of hurdles that exist. But I think some of those hurdles are good hurdles. That is, I have been working on this issue for 3 years, over 3 years. Long before I ever thought of running for President, I agreed to head a project for the Governors on health care. And I started off by interviewing 900 health care providers in my own State. I then interviewed several hundred business people and employees about their particular circumstances. This is the most complicated issue that the United States has had to face in a long time. It has a very human face when you deal with the human dimensions of it. But it's extremely complex.

So the first hurdle is to try to get everybody singing out of the same hymnal, as we say at home. For example, in the next few days, Congress is going to sponsor a 2-day health university for Republicans and Democrats just to try to get information and facts out, just to try to get the evidence so people will get a feel for all of your different circumstances and what are the problems, and how does the system presently work, and what are the costs, and where are we out of line, all things we've been talking about today. So getting the information out, I think is significant.

Then I think the next big hurdle will be trying to make sure that we make decisions based on the real issues and not illusory ones. I've not tried to mask the fact today, and I won't in the debate, that there are some tough choices to be made and that in the short run we can't make 100 percent of the people winners. For example, if you want to end job lock and pre-existing conditions and really smooth out things

for small business, you have to go to broad-based community rating. That is plainly the best for small business and plainly the best for most Americans. If you do that, young, single, super healthy people may pay slightly higher premiums, because what you do is you merge them in with middle-aged people who get cancer but still can go back to work, for example. So there are tough choices to be made.

Then thirdly, if you really clean out the administrative waste in this system and you go to a more preventive-based system, you will shift the way you are spending money. You will shift the dimensions of the health care system, and you'll shift money drastically away from administration and insurance costs into the provision of basic health care. And so there will be people who won't favor that and will fight it.

You will also tend to favor either bigger providers of health care, and these big alliances are people who have joined together and do it jointly to provide an alliance. So then we'll fight through the winners and losers. That'll be the toughest part in the Congress. There is a real spirit of cooperation, I think, in the Congress now. A willingness to try to face this terrible problem, do something sensible about it, take our time and really listen to people, and do more good than harm. And I think that's very hopeful. We should all be very glad about that.

*[A participant asked how the Government could prevent the plan from becoming underfunded due to population age.]*

*The President.* Well, the way you can—arguably, Medicaid is underfunded now, although the truth is that it's wrongly funded. That is we're spending money on the wrong things. The Medicaid budget is still going up, over the next 5 years is projected to go up somewhere between 16 percent next year and 11 percent in the 5th year, in other words, over 4 times the rate of inflation next year.

Social Security, believe it or not, is now overfunded. That is, it got underfunded 10 years ago. If people hadn't made the right projections for the—it is now overfunded, but the overage is all being used to make the deficit look smaller. So we're going to have to stop spending Social Security on the deficit if you don't want the payroll tax for Social Security to bankrupt small business. Because when I, people my age—I'm the oldest of the baby boomers, people

born from '46 to '64—when we start retiring in the next century, we cannot at that moment still be using the Social Security tax to make the deficit look smaller, which is another reason it's so important to get control of this deficit now. We just can't do it.

The answer to your question, sir, is Social Security is basically under control if we bring the deficit down. The problem with the Medicare and Medicaid system is that it can't control its membership since the system, the private system, is hemorrhaging. And it is based on a fee-for-service system where there is no regularization of benefits and where many of the beneficiaries don't assume any responsibility for themselves.

So what we're going to try to do is to increase the amount of personal responsibility in the system as well as put some cost controls. Then, instead of just paying a fee-for-service system, what we want to do is put Medicare and Medicaid—starting with Medicaid because Medicare actually works pretty well, it's adequately funded and well-administered—but Medicaid, we want to put those folks in the same kind of health alliances so they'll be in competition, to go back to what you guys said, so there will be some competition for the services.

Florida has started to do that, and their preliminary indications are there's going to be a big reduction in the cost of Medicaid if we do it. In other words, I think the mistake has been not to have Medicaid subject to the same sort of competitive environment that the bigger private sector employers are. If you put small business and the Medicaid in where a lot of the bigger employers are now and the public employees, you're going to see a real modification of the cost trends in the outer years in ways that will help you all as taxpayers as well as employers.

Thank you very much. They say we've got to go. I wish we could stay. You were great. Thanks.

NOTE: The President spoke at 10:15 a.m. at the W.S. Jenks and Sons hardware store. In his remarks, he referred to DC City Council member Harry Thomas, Sr.