Mr. Businessman, help heal the sick

July 30, 2006 | Len Nichols and Peter Harbage | LEN NICHOLS is director of the health policy program at the New America Foundation in Washington. PETER HARBAGE, based in Sacramento, is the senior program associate of New America's health policy program and president of Harbage Consulting.

HEALTHCARE reform in California is at a potential turning point: Business has taken a seat at the bargaining table.

Some members of the state's new business vanguard participated at Gov. Arnold Schwarzenegger's healthcare summit last week. Steven Burd, chief executive of Safeway Inc., talked about his company's rising health insurance spending and said it usually takes a crisis to bring about change. Calling healthcare costs a crisis, he urged business to get involved.

Business cooperated early in President Clinton's campaign to reform the nation's healthcare system in the beginning of the 1990s. But many employers came to fear the politicians, worrying that reforms would be financed through new business taxes and costly regulations. Since then, they have routinely opposed major health-coverage proposals and shied away from broader discussions on reform. Instead, companies have focused on managing costs, which often means dropping coverage altogether. From 2000 to 2004, the percentage of California workers covered by employer-based insurance dropped from 59% to 55%.

Business is rejoining the healthcare debate for a variety of reasons. Among them are the rising costs of health insurance (between 2000 and 2004, the employer share of premiums jumped about 60%); the competitive disadvantage of ever-rising health insurance costs in an expanding global marketplace; the increasing ranks of the uninsured, whose treatment costs in California typically boost employer premiums by 10%; and sincere interest in helping employees stay healthy.

Most of all, however, business fears politics. In other words, healthcare reform could happen "to" it instead of "with" it. Polls consistently show that California voters support the idea that employers should be required by law to provide insurance to their workers.

The potential costs of remaining on the sidelines are mounting, especially with labor pushing for more health insurance coverage for workers. The city of San Francisco is set to implement a plan next year that would rely heavily on a new tax on business to give its 82,000 uninsured residents better access to healthcare. Statewide, business narrowly defeated a 2004 labor-backed initiative that would have forced medium-sized and large employers to provide health insurance. And although a judge struck down a Maryland law that would have required Wal-Mart to spend more on health insurance, the state's action was a wake-up call for business.

So employers have every incentive to get back in the game. Labor demands that healthcare must be affordable and accessible to all. Leading healthcare providers focus more on a system that is rational and quality-oriented. With business participating, a new set of principles would gain more attention.

First, cost containment would be a priority. At Schwarzenegger's summit, virtually all participants agreed that costs, coverage and quality have to be dealt with simultaneously, not separately. But business wants to know that it's getting a return for its healthcare spending. For example, employers would be willing to pay more for managing such chronic diseases as diabetes and asthma if that would help reduce the cost of emergency rooms.

Second, business leaders are likely to demand that more personal responsibility be built into the health insurance system. Lifestyle choices -- smoking, obesity, lack of exercise, etc. -- affect health. Employers don't want to condone bad habits that they must pay to treat through insurance later. So they might offer financial incentives to their workers to make healthy choices, or penalize those who don't. For an extreme example, a Michigan healthcare company said it would fire workers who test positive for tobacco.

Finally, administrative efficiency would be part of the healthcare reform debate. Most healthcare data still flow like it was the 19th century -- from paper to paper, written by hand. Few hospitals use computerized drug-order systems that eliminate handwriting errors and that automatically check for dangerous drug interactions, even though one study showed that such errors cost billions of dollars to correct. The chief executives of California's technologically sophisticated industries aren't likely to continue to pick up the tab for such administrative practices through higher premiums.

California employers understand that the costs of doing nothing on healthcare may put them out of business. Already, for some of them, premium payments exceed after-tax profits. Experts say this could soon be the norm in the state.

Andy Stern, president of the Service Employees International Union, is encouraging employers to join the conversation on how to retool health insurance. Other labor leaders remain skeptical of business' intentions. But employer participation promises new opportunities for consensus to trump gridlock. That would be good news for all Californians.